

**INTERPRETATION GUIDELINES ON THE MINIMUM STANDARD REQUIREMENTS
FOR THE OPERATIONS OF BROKER DEALERS**

By the nature of their business, Broker Dealers are high risk operators. Although for a number of them, market activity has risen significantly, several Broker Dealers' operating standards have remained the same. Many have not established structures commensurate with the growth of their businesses, the capital market's challenges and the associated risks.

The Exchange has taken the position that it is imperative for Broker Dealers to build strong corporate and operational structures for their operations in order to mitigate risk and strengthen the market. It takes the view that healthy and well established firms are in a better position to manage and absorb any shocks that may be experienced in the capital market. This approach is in line with the regulatory tools employed globally to manage risks in the activities of capital market operators.

In view of the foregoing, The Exchange hereby recommends the following Guidelines on Minimum Standard Requirements for the Operations of Broker Dealers. These minimum standards also aim to nurture confidence in the capital market and enhance investor protection.

The Guidelines addresses the following five broad areas and provide the minimum standards expected in the operations of all Broker Dealers in the Nigerian capital market:

- (1) Manpower and equipment;
- (2) Organizational structure and governance;
- (3) Effective processes;
- (4) Global competitiveness; and
- (5) Technology.

1. Manpower

A broker/dealer firm is expected to have efficient human resource to see to the daily operations of the firm in order to ensure effective service delivery and risk control. It is essential that it employs high quality staff that should be adequately supervised where required. This is in order to avoid exposure of the business to avoidable actions and unscrupulous practices which in turn threaten the integrity of the market. Building capacity also requires continuous training of staff.

The following qualifications and post qualification levels of experience are recommended for the roles set out below:

Managing Director/CEO	A University degree or its equivalent, ACS, 5 years cognate experience with at least 3 years in a management position.
Chief Dealer	A University degree or its equivalent, 5 years post ACS cognate experience with at least 3 years as a trader in an authorized stockbroking firm.
Head of Operations/IT	B.Sc. degree or its equivalent with 4 years working experience and additional professional qualification with at least 1 year in a management position.
Financial controller/CFO	B.Sc. Accounting/Finance or its equivalent, ACA and 4 years post ACA experience.
Internal Control/Audit	B.Sc. Accounting/Finance or its equivalent, ACA, and 4 years post ACA experience.
Compliance Officer	A degree in Law, Accounting or any other relevant degree, with a minimum of 4 years' experience, must have cognate experience in the capital market. The Company Secretary can also serve as compliance officer provided that he/she is vast in the capital market and has completed the appropriate training prescribed by The Exchange for Compliance officers.
Risk Manager/CRO	B.Sc. Accounting/Finance or its equivalent, ACA, ACS or an Economist with a minimum of 4 years working experience in the financial services sector.
Sales Trader/ Client Service Manager	Must be CIS qualified but not necessarily an authorised clerk, University degree or equivalent with a minimum of 4 years working experience.
Research Analyst/ (may not be required by firms that buy research)	B.Sc. Economics or equivalent degree in Financial Analysis, plus 4 years working experience.
Human Resources and Administration	B.Sc. degree in relevant discipline or its equivalent. CIPM or other professional qualification would be an added advantage and 4 years working experience.
Company Secretary	BL, LLB, with at least 4 years post call to bar experience.

Minimum Equipment

These have key functional attributes and are utilized by the firm for specific purposes. They include sufficient office space and other materials regularly used in offices by businesses and other organizations for smooth operations. Such include small, expendable items in daily use to furniture, machines and other higher-cost equipment. The following minimum equipment items are recommended:

- (i) An accessible office with decent ambience, space and meeting rooms,
- (ii) Photocopying machine/scanner, adequate power supply with adequate backup,
- (iii) Decent ambience, including table and chairs for staff and clients,
- (iv) Fire proof cabinets and safe,
- (v) Desk telephone and/ or dedicated GSM line,
- (vi) Help Desk and

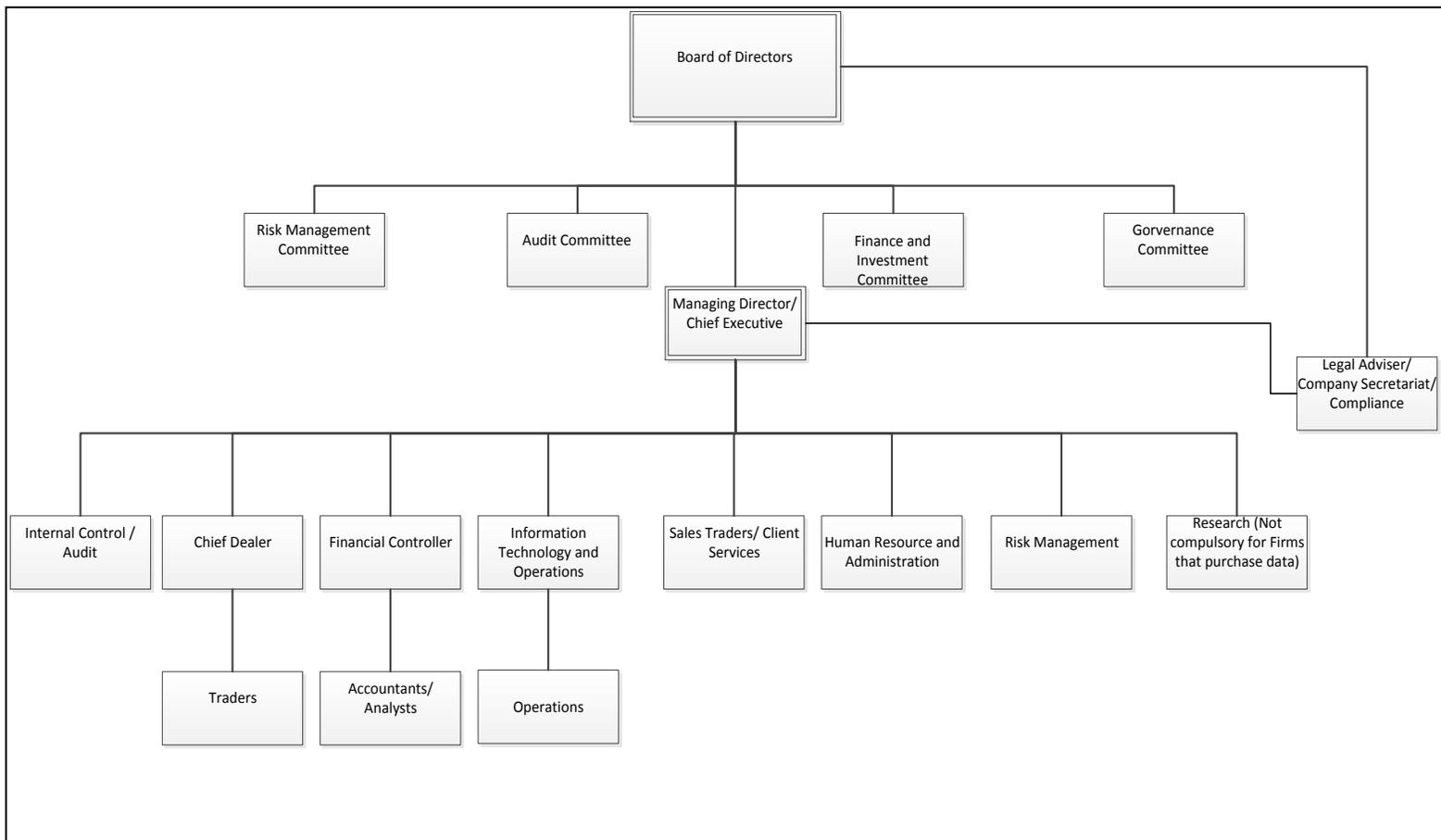


(vii) Operational Vehicle.

2. Organizational Structure and Governance

An organizational structure is the foundation on which standard operating procedures and routines rest within a firm. The structure should determine how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the different levels of management. The organizational structure is influenced by the objectives and strategies of the firm and is manifested in the operations and performance of the firm.

A recommended sample Organogram of a broker/dealer firm is as shown below:



The following key departments are recommended for effective control and management:

- I. Information Technology & Operations;
- II. Internal Control/Audit;

- III. Finance;
- IV. Risk Management;
- V. Sales Traders/Client Service;
- VI. Legal Adviser / Company Secretariat and Compliance;
- VII. Human Resources and Administration and
- VIII. Chief Dealer.

2.2 Governance

Closely linked with a good organizational structure is the expectation of effective running and management of the firm. Whilst the Board is responsible for providing strategic leadership and management oversight of the firm, in order to achieve the firm's objectives, it may delegate its authority to management or committees subject to the control of the Board. The executive management is responsible for the day to day management of the operations and business affairs of the firm. They hold and exercise specific executive powers conferred on them by and with the authority of the Board. The Board of a Broker Dealer must consist of a minimum of 5 members.

Appointment of Non-Executive Directors

Without prejudice to the provisions of the Code of Corporate Governance, candidates must possess:

- A first degree or its equivalent in any discipline;
- Proven skills and competencies in their fields;
- Knowledge of the operations of the capital market and relevant laws and regulations guiding the financial services industry;
- Ability to make meaningful contributions to board deliberations.; and
- All the conditions stipulated in the propriety principles shall apply;

Non-Executive Directors shall, in addition, be required to:

- Undergo directors' training at the firms expense, aimed at acquiring or having the prerequisite knowledge of their responsibilities and duties as non-executive directors;
- Provide three reference letters from individuals of reputable standing in the country.

In considering nominees with limited industry experience, the NSE shall take into account the following:

- i. The size, scope and complexity of the operations of the firm;
- ii. The relevant experience and qualifications of other Board members;

- iii. The existence and number of Independent Directors on the Board;
 - iv. An assurance that the proposed director(s) would be exposed to accelerated training over a short period of time;
 - v. Assignment of responsibilities commensurate with their experiences.
- Notwithstanding the requirements stated above, the NSE may at its discretion, consider and approve the appointments of candidates under special circumstances.

It should be noted in addition, that the appointment of members of the Board of Directors must be approved by the Securities and Exchange Commission and The Exchange.

Committees

Committees assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. Each committee's terms of reference should set out clearly what the committee is to do, stating whether it is to take decisions or merely make recommendations to the Board. In line with good corporate governance, the Board of Directors of broker dealer firms is advised to establish the following minimum number of committees:

- (i) Governance Committee,
- (ii) Finance and Investment Committee,
- (iii) Audit Committee and
- (iv) Risk Management Committee.

3. Effective processes

Business processes cut across organizational and functional boundaries. As a result, effective business processes are best accomplished through the involvement of cross-functional teams of individuals who actually work in the system and know it first-hand. For businesses to succeed having the right strategy is critical; and effective execution assists to move the business in the right direction towards achieving its set goals.

The recommended process and policy documents to be adopted and maintained include the following:

- (i) articulated business plan and strategy,
- (ii) investment policy,
- (iii) risk management policy,
- (iv) compliance manual,
- (v) anti-money laundering/ counter terrorist financing manual,
- (vi) operational manual and Standard operational Procedure,
- (vii) IT policy,
- (viii) Surveillance Model,¹

¹ *'Dealing Members are required to have an effective surveillance model that oversees their trading activities for effective monitoring and oversight'*

- (ix) Best Execution Policy,
- (x) information security, business continuity and back-up arrangement,
- (xi) human resources and succession planning policy,
- (xii) ethics and conduct of business policy (this also includes Chinese walls, conflicts of interests, gifts and entertainment etc.),
- (xiii) finance and accounts,
- (xiv) life insurance policy,
- (xv) pension plan policy,
- (xvi) property insurance (e.g. building, IT equipment, furniture, etc.)

4. Global Competitiveness

Globalization, trade liberalization and interconnectivity, ease and efficiency of movement of capital by investors across different markets; and rapid advancement in information systems and communications technology have resulted in stronger market competition globally. A Dealing Member’s success and going concern ability is increasingly dependent on its global competitiveness in terms of using, adopting and maintaining the following tools and practices to support its business:

- Global best practice i.e. the ability the continuously benchmark and conform with internationally recognized business standards and trends,
- Ability to attract and retain best in class Human Capital for its operations,
- Adoption of high Ethical standards and a Compliance culture,
- Efficient service delivery for its customers and business partners,
- Twenty first century technology in its operations.

5. Technology

The operational environment in today’s capital market is chiefly driven by modern technology. It is important that operators embrace modern technology and upgrade their facilities in order to become or remain locally and internationally competitive and to enhance transparency and the overall experience of investors doing business in the Nigerian Capital Market. The following minimum technology requirements are recommended:

WHAT: Minimum Technology Standard - is a set of baseline Technology Requirements to achieve:	WHY
<ul style="list-style-type: none"> • A consistent high level of service provision for market participants. 	<ul style="list-style-type: none"> • Improve customer experience of doing business in the Nigerian Capital Market.
<ul style="list-style-type: none"> • Derive operational efficiencies for The Nigerian Capital Market. 	<ul style="list-style-type: none"> • Ensure effective controls and resilience are embedded into the operations of broker/dealer firms.

<ul style="list-style-type: none"> Adoption of global best practices for Information Security and Business. 	<ul style="list-style-type: none"> Enhance market confidence and facilitate the adoption of new products, modern trading and operational techniques.
<ul style="list-style-type: none"> Continuity and securities processing. Facilitate improved risk management practices (pre and post trade). 	

Broker OMS must perform the following functions: On trade

ITEM	DESCRIPTION
Client Authentication	Broker OMS must be able to authenticate clients trading via automated trading mediums such as Broker Portals.
Account Verification	Broker OMS must be able to validate trade instructions against client account to ensure funds and stock availability.
Compliance Checks	Broker OMS must have the capability to verify trade instructions against client predefined policies to ensure that the Broker's action does not contravene client's intentions and that client's account is sufficiently funded prior to undertaking trades. It should also provide a full audit trail of all events relating to any transactions undertaken.
Execution Time	Client instructions must be executed within reasonable pre-defined limits based on submission/instruction mechanism.
Real-Time Market Data Feed	Broker OMS must have the capacity to receive real-time trade feed from the Exchange via an automated means.
Real- Time News Feed	The OMS must have the capacity to receive news feed from reputable market news feed vendors e.g. Thomson Reuters, Bloomberg etc.,
FIX Enabled Trade Execution	Broker OMS must have the capacity to auto place orders and auto receive executions via FIX. The OMS systems must support FIX 5.0 protocol.
Real-Time Inventory Management	Broker OMS must be able to perform (Mark-to-Market) accounting calculation that tracks the value of an asset based on the market value of the assets in real time (i.e. commodity, security, derivatives, etc.).
Corporate Action Management	Broker OMS must have the capacity to manage Corporate Actions in real time.
Auto-Quote Submission and Updating (MM Only)	Broker system must be able to handle auto quote mechanisms together with any underlying risk management calculations. This could also be performed by a dedicated MM system.

Auto Stop Trading at Pre-defined limits (MM Only)	Broker systems must be able to auto stop order placements and trading at pre-defined volume / value of execution based on time. This could also be performed by a dedicated MM system.
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Broker Dealer OMS must perform the following functions: Post trade

ITEM	DESCRIPTION
Compliance Checks	Broker Dealer OMS must have the ability to check trades against client account to prevent overtrading.
Automated Trade Detail Enrichment	Broker Dealer systems must be able to enrich trades and auto produces accurate contract notes.
Back Office Integration	Broker Dealer systems must have the capacity to integrate seamlessly with the back office Accounting systems.
Integration with Electronic Client Interface Platforms	Broker Dealer systems must have the capability to auto notify and provide clients with electronic access to the portfolio and any transactions undertaken on their account via PC, tablet and smartphone interfaces.
Automation of Contract notes	Broker Dealer systems must have an automated contract note dissemination system.

Real-Time Net Capital Reporting

- Accounting package (IFRS compliant),
- XBRL support within accounting solution,
- Ability to transmit Capital position data in XBRL format from accounting package to the NSE in near-real-time.

Baseline IT requirements

Technical	Support Services
Hardware	Business Continuity
Networks	Documentation
Operating Systems	Change Management



Applications	Risk Management
Information Security	Service Capacity, Availability and Improvements
Telephone recording applications	On boarding of all clients on X-Alert
Biometric Technology for KYC	Bill generation for services rendered

ITEM	DESCRIPTION
Hardware	<ul style="list-style-type: none"> • Hardware must have sufficient capacity and resilience to support the Business peak load requirements. • Uninterruptable power solution should be in place during core business hours to avoid service disruption. • For connection to the trading platform the minimum specification is iCore 5 processor 2.0 GHz or higher, 8GB RAM, 300GB (10k) 3.5", Windows 7 or 8.
Networks	<ul style="list-style-type: none"> • Network bandwidth and latency must be aligned to the requirements of the internal and external services provided. • Website and online services must have sufficient bandwidth and redundancy to support customer and business requirements. • Security is paramount. Implemented to best practice. • X-NET connectivity for trading and FIX connectivity to the Exchange.
Operating System	<ul style="list-style-type: none"> • Operating system must be kept up to date in terms of patch updates and should be a version currently supported by the software provider. • Licensed operating system must be used by Firms and not pirated software. • In general MS Windows Server 2008 or above has widespread support in Nigeria and you may benefit from The Exchange's discount. • You can also subscribe to Exchange hosting services for Servers.



INTERPRETATION GUIDELINES ON MINIMUM STANDARDS

<p>Applications</p>	<ul style="list-style-type: none"> • Trading Workstation (X-Gen). • Order Management System. • Auto quote/Trading Solution (Market Makers). • Position Keeping/Risk Management. • Accounting package (IFRS compliant). • XBRL support within accounting solution. • Ability to transmit Capital Monitoring data in XBRL format from accounting package to the NSE in near-real-time. • Ability to backup/Restore. • Professional Email System (If there is sufficient demand, we can offer email service to broker dealers).
<p>Information Security</p>	<ul style="list-style-type: none"> • Firewall must be installed to protect the network. • Password protection and enforcement of complex password across board. • Firm must have an email and website domain name. • Regular testing of security perimeter and internal network by professionals. • Dedicated trading workstations to trading only to minimize risk of malware. • Up to date malware protection software and processes. • Ongoing staff education on Information Security ethics. • Access should be provided on a need to know basis.
<p>Business Continuity</p>	<ul style="list-style-type: none"> • Daily Backups with offsite storage. • Up to date business continuity plan, signed up by the business Executives and tested at least twice a year. • Subscription to The Exchange services for Business Continuity Plan.
<p>Documentation</p>	<ul style="list-style-type: none"> • Ensure up to date detail documentation of all activities and processes. Critical services and applications must have their standard operating procedures and workflows outlined.
<p>Change Management</p>	<ul style="list-style-type: none"> • All changes to the technology systems must be documented, tested and approved by appropriate senior management staff via a change control system that is auditable before implementation to ensure that availability risks are minimized. • Risks associated with any changes must be fully understood and a rollback plan detailed and where possible and tested before changes are implemented. This should also include new releases and updates.
<p>Risk Management</p>	<ul style="list-style-type: none"> • Firm must have a risk management process in place and undertake regular risk assessment programmes. • Operational, Credit, Market risk (including position limits) and Information risks must be fully identified and addressed, among others.
<p>Service Capacity, Availability & Improvement</p>	<ul style="list-style-type: none"> • The availability of the critical systems should be measured, documented and reviewed regularly to ensure maximum uptime of the services and appropriate improvement plans initiated on an on-going basis. • A regular review of technology capacity should be conducted to match the available technology resources to business requirements and demands. • All critical services must be underpinned by an up to date service contract with a



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