



**TRADING HALTS DUE TO EXTRAORDINARY MARKET VOLATILITY
(Index Circuit Breakers' Rule)¹**

INTERPRETATIVE GUIDANCE

1. Introduction

Circuit breakers are trading halts used by exchanges to guard against sharp fluctuations on the market. They are designed to give the market an opportunity to take a break and adjust to all available information before re-opening the market. They provide protection against excessive volatility during continuous trading sessions of the market. Circuit breakers provide the opportunity for greater information dissemination and assimilation to all market participants, including investors to facilitate better informed investment decision making during periods of high market volatility.

On The Nigerian Stock Exchange (The Exchange) circuit breakers will be triggered during periods of extraordinary volatility in the equities market in order to maintain an orderly market, and to allow liquidity to re-aggregate. The purpose is to dampen extraordinary volatility swings on market prices by providing time to restore equilibrium between buyers and sellers. Circuit breakers have the objective of dampening both market upswings and market downswings, and will complement the price limits on individual stocks already in place.

The Exchange, through the Index Circuit Breaker Rule, seeks to promote just and equitable principles of trade, remove impediments to and improve the mechanism of a free and open market; and protect investors and the public interest.

The circuit breaker threshold will be set by the Exchange from time to time. The Exchange has determined to set the threshold at 5% for the first trigger and a further 5% for the second trigger in the same direction.

2. Procedure

In the event of extraordinary market volatility, i.e., anytime there is a 5% market-wide rise or decline (Extraordinary Market move) in the value of the NSE All Share Index (ASI) from its closing value on the immediately preceding trading day, the circuit breaker will

¹ [Rule 15.46, Dealing Members' Rules, Rulebook of The Exchange, 2015. See also](#) Section 14.2, [The Nigerian Stock Exchange Market Model and Trading Manual - Equities](#).

be triggered, bringing about a trading halt in all equities listed on The Exchange, for a period of thirty (30) minutes. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. At the end of the thirty (30) minute trading halt, the market will reopen with a ten (10) minute intraday auction session before resumption into continuous trading.

Given the highly-automated nature of today's markets and improvements in connectivity, a trading halt of thirty (30) minutes is sufficient to allow market participants an opportunity to assess a serious market rise or decline and express their trading interest, with relatively little disruption to the market.

At The Exchange, the NSE ASI-based market-wide circuit breaker system is applicable at two (2) stages of the index movement:

- Stage 1 - a 5% rise or decline; and
- Stage 2 - a further 5% rise or decline in the same direction.

3. Timing and Frequency of Trading Halts

Trading halts will only occur in the event that the ASI breaches the 5% movement threshold in either direction between 10:15 am and 13:45 pm during a trading day. Trading will not be halted if an Extraordinary Market move occurs after 13:45 pm. In addition, The Exchange will halt and reopen trading based on an Extraordinary Market move only once per trading day.

It is expected that a trading halt will be a relatively rare event that will address extraordinary market rises or declines, and enable stabilization in the market.

4. Trading Halt

Trading halts will not affect the clearing, settlement and depository operations for matched trades, which will function as normal. Thus, if, for example, the circuit breaker is triggered at 11:00 am, all trades matched as at 11:00 am will be cleared and settled as normal according to the T+3 settlement system. This implies that matched trades will not be affected by the circuit breaker.

Further, during a trading halt:

- Existing orders will remain in the order book;
- Existing orders may be cancelled or de-activated by brokers;
- Existing orders cannot be amended; and
- New orders cannot be entered until the market re-opens.

5. Re-Opening of the Market

Following a trading halt due to an extraordinary upswing or downswing in the NSE ASI, the market will re-open with a ten (10) minute intraday auction session followed by resumption into the continuous trading session. A communication will be sent notifying the market that trading has resumed. All existing orders keyed in prior to the trading halt will be re-activated and continue to be matched upon resumption of the trading.

After re-opening of the market, The Exchange's trading engine will accept all forms of orders that can be accepted during the continuous trading session.

However, if, after the re-opening of trading, the ASI moves further in the same direction by a 5% rise or decline in its closing value on the immediately preceding trading day, The Exchange will halt all trading for the remainder of that day.

6. Closing Price

The price that is set from the closing auction, or if there is no auction the last traded price in any equity prior to the closing of the market shall be deemed to be the closing price in such equity for a trading day.

7. Tabular Illustration

Where the first trigger limit is 5%, and the second trigger limit is 5%.

Trigger Limit	Trigger Time	Market Halt Duration
5% rise/ decline in the ASI	After 10:15 am and anytime up to 13:45 pm	Thirty (30) minutes halt followed by a ten (10) minute intraday auction session and resumption into continuous trading
	After 13:45 pm	No halt
After Re-Opening Trading		
A further 5% rise/ decline in the ASI	After 10:15 am and anytime up to 13:45 pm	

		Market closes For the remainder of the trading day
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Scenarios 1 & 2: First and second market trigger breached (same direction)

	1st Stage	Action	2nd Stage	Action
Scenario 1	Market moves ↑ by 5% at or after 10:15 am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be followed by a ten (10) minute intraday auction session and resumption into continuous trading	Market moves ↑ by another 5% (after re-opening)	Market closed for the remainder of the trading day.
Scenario 2	Market moves ↓ by 5% at or after 10:15am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be followed by a ten (10) minute intraday auction	Market moves ↓ by a further 5% (after re-opening)	Market closes for the remainder of the trading day.

	1st Stage	Action	2nd Stage	Action
		session and resumption into continuous trading.		

Scenarios 3 & 4: First market trigger breached, but second market trigger not breached (same direction)

	1st Stage	Action	2nd Stage	Action
Scenario 3	Market moves ↑ by 5% at or after 10:15 am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be followed by a ten (10) minute intraday auction session and resumption into continuous trading.	Market moves ↑ by another 3% (after re-opening)	Trading continues till market close at 14:30pm.
Scenario 4	Market moves ↓ by 5% at or after 10:15am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be followed by a ten	Market moves ↓ by another 4% (after re-opening)	Trading continues till market close at 14:30pm

	1st Stage	Action	2nd Stage	Action
		(10) minute intraday auction session and resumption into continuous trading.		

Scenarios 5 & 6: First market trigger breached, but second market trigger not breached (opposite directions)

	1st Stage	Action	2nd Stage	Actions
Scenario 5	Market moves ↑ by 5% at or after 10:15am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be followed by a ten (10) minute intraday auction session and resumption into continuous trading.	Market then moves ↓ by 5% (after re-opening)	Trading continues till market close at 14:30pm
Scenario 6	Market moves ↓ by 5% at or after 10:15am, but before 13:45pm	Thirty (30) minutes halt. Fifteen (15) minutes into the halt, there will be a communication release from The Exchange that the market will re-open in another fifteen (15) minutes. The thirty (30) minutes halt will be	Market then moves ↑ by 5% (after re-opening)	Trading continues till market close at 14:30pm

	1st Stage	Action	2nd Stage	Actions
		followed by a ten (10) minute intraday auction session and resumption into continuous trading.		

8. Information Dissemination

The Exchange will immediately inform investors and other stakeholders about a trading halt, as well as disseminate information of a market re-opening during a trading halt in public announcements via various sources, including The Exchange's website at www.nse.com.ng, media outlets, and market data feeds which will appear on The Exchange's X-Gen trading terminals and those of its market data vendors.

9. Conclusion

The Exchange's circuit breaker implementation is consistent with procedures prescribed by the World Federation of Exchanges in its 2008 Report on Circuit Breakers, as well as the International Organization of Securities Commissions in its 2002 Report on Trading Halts and Market Closures. It is designed taking into consideration that equity market activity in Nigeria is dominated by institutional players, both foreign and domestic.

NOTES:

1. The above information does not constitute professional investment or legal advice to anyone. Professional advice should be sought by stakeholders or potential investors where required.
2. Should you require further clarification, kindly contact the following at The Exchange:
 - a. Market Operations Department at marketcontrol@lse.com.ng
 - b. Secondary Markets Department at secondarymarkets@lse.com.ng.
3. The Rules of The Exchange, and The Nigerian Stock Exchange Market Model and Trading Manual – Equities, are available on its website (www.nse.com.ng), for additional reference.

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