

**NOTIFICATION OF ADDITIONS AND AMENDMENTS TO
THE RULEBOOK OF THE EXCHANGE (TRADING LICENSE HOLDERS' RULES)
AND INVITATION FOR COMMENTS**

I. Introduction

Nigerian Exchange Limited ("**The Exchange**") is proposing the following additions and amendments to the Rulebook of The Exchange (Trading License Holders' Rules):

- (a) Proposed Rules on Secondary Market Large Volume Transactions via Accelerated Book Building Process;
- (b) Proposed Amendments to Sponsored Access Rules;
- (c) Proposed Amendments to Rule 6.1 – Trading License Holders – General Requirements; and
- (d) Proposed Amendments to Rule 7.1 – Minimum Capital Requirements.

II. Summary of the Proposed Rule Additions/Amendments

(a) Proposed Rules on Secondary Market Large Volume Transactions via Accelerated Book Building Process:

On 16 October 2017, The Securities and Exchange Commission (SEC) approved the Amendments to NGX's Trading License Holders' Rules (Part XIII A), which include the Rules on Large Volume Trades in Equities, (the "LVT Rules"). The LVT Rules were made effective on 12 February 2018.

Although the LVT Rules have largely assisted in transactions within their context, we observe that they have not fully addressed the issues of speed of execution and price discovery that are germane for stock market transactions. This is because, sell-side Trading License Holders often times, encounter difficulties identifying interested buyers at a fair price, leading to a prolonged search for counterparties, which negatively impacts liquidity of the capital market.

As such, The Exchange considers it important to provide execution options that enable Trading License Holders and investors execute transactions at minimal turnaround time and reduced time to market, leading to improvement in overall liquidity of the market.

Thus, The Exchange proposes these Rules on Secondary Market Large Volume Trade (LVT) Transaction via Accelerated Book Building Process, to address the identified gaps, and provide an alternative execution channel for investors and Trading License Holders desiring speedy execution of Large Volume Trades. Accelerated Book Building Process (ABB) is a form of offering in equity capital markets, which involves the offer and pricing of shares in a short time period, with little or no marketing. In this regard, a secondary LVT via ABB is a structure for the coordination of a normal but expedited course for the sale of a large block of existing securities in the secondary market at a market-driven price.



The proposed Rules prescribe minimum requirements and effective guidelines for executing Secondary Market ABB, Disclosures, Procedure for Submission and Approval Request, Processing, Pricing and Bidding, as well as execution of ABB mandates. The Exchange believes that the Proposed Rules will improve liquidity in the market, and execution turnaround time, while also ensuring that transparency, fairness and orderliness of the market are continuously maintained.

(b) Proposed Amendments to Sponsored Access Rules:

On 18 January 2013, the West African Capital Markets Integration Council (WACMIC) was established as the governing body for the integration of West African capital markets. WACMIC's overarching objective was to establish a harmonized regulatory environment for the issuance and trading of securities across West Africa, and develop a common platform for cross-border listing and trading of such securities in the sub-region.

In line with this objective and The Exchange's drive to increase market access, The Exchange received the approval of the Securities and Exchange Commission for its Sponsored Access Rules on 19 May 2014. The Rules aim at enabling foreign brokers or institutional investors that are not Trading License Holders of The Exchange to trade directly on The Exchange under the trading codes of NGX's Trading License Holders. While the Rules have opened The Exchange's market to the foreign audience intended, its phrasing unintentionally restricted sponsored access to only foreign users, despite the existence of domestic users needing the solution.

Thus, The Exchange is proposing amendments to the Sponsored Access Rules in order to allow more market participants including domestic users have access to The Exchange's order book through a Sponsored Access solution. The proposed amendments seek to redefine the meaning of a "Sponsored Participant" that can be granted access under the Rules, to include persons domiciled locally or internationally. The Rules have also been amended to reflect the demutualized structure of The Exchange, and remove duplicate provisions.

(c) Proposed Amendments to Rule 6.1 – Trading License Holders – General Requirements:

The Exchange's Minimum Operating Standards (MOS) requirements serve as the base point for all Trading License Holders and are provided under Rule 7.1 – Minimum Capital Requirements (Trading License Holders' Rules). At the same time, some provisions on minimum capital requirement are provided under Rule 6.1 – the General Requirements for all Trading License Holders.

During NGX RegCo's review of The Exchange's existing policies, rules and regulations as they relate to Trading License Holders post demutualization of The Exchange, NGX RegCo identified the need to move the MOS requirements to Rule 6.1. This is to ensure the Rulebook's provisions on minimum requirements to operate within the market are



clear. This also synchronizes the title of the rule with the contents included in the relevant subsections under the General Requirements.

The Exchange therefore proposes an amendment to Rule 6.1 to remove provisions relating to minimum capital requirements, and insert provisions relating to general requirements such as the Minimum Operating Standards, in order to provide clarity and a suitable reference for the Rules. The Rules are also being amended to reflect the demutualization structure of The Exchange.

(d) Proposed Amendments to Rule 7.1 – Minimum Capital Requirements:

In view of the proposed amendments to Rule 6.1 above with respect to the general requirements for Trading License Holders and the need to relocate the provisions on minimum capital requirements to its appropriate position in the Rules, The Exchange is also proposing an amendment to Rule 7.1 – Minimum Capital Requirements.

Further, one of the recurring issues that NGX RegCo observed during the review of regulatory reports submitted by Trading License Holders of The Exchange is the shortfall in the minimum capital required for the licensed function of various Trading License Holders. Owing to NGX RegCo's engagements with Trading License Holders on the need to shore up their regulatory capital in line with the Rules of The Exchange, NGX RegCo received feedback from stakeholders expressing concerns about the twenty-four (24) hour timeline provided for Trading License Holders to comply with the provisions of the current Rule 6.1 (b)(7), where the capital adequacy of the Trading License Holder falls below the minimum requirement.

Having reviewed the feedback from Trading License Holders, against the provisions of SEC Rule 22(5) – Minimum paid up capital – which provides a three (3) month grace period for defaulting capital market operators to shore up their capital in the event of a reduction, The Exchange now proposes an amendment to its Rules to afford Trading License Holders additional time to meet up the minimum required capital for their licensed functions.

Thus, through the amendments to Rule 7.1, The Exchange seeks to remove provisions relating to Minimum Operating Standards and relocate them to Rule 6.1; insert provisions on minimum capital requirements; and align the timeline provided for Trading License Holders to shore up their capital with the timeline provided under Rule 22 (5) of the Rules and Regulations of SEC.

III. Invitation for Comments

NGX RegCo is pleased to invite you to participate in its rulemaking process. Your participation is required by way of reviewing the proposed Rule additions/amendments and providing your comments on them. The proposed Rule additions and amendments may be viewed by clicking on the hyperlinked text provided below:

- (a) [Proposed Rule on Secondary Market Large Volume Transactions via Accelerated Book Building Process;](#)
- (b) [Proposed Amendments to Sponsored Access Rules;](#)



- (c) [Proposed Amendments to Rule 6.1 – Trading License Holders – General Requirements; and](#)
- (d) [Proposed Amendments to Rule 7.1 – Minimum Capital Requirements.](#)

The Exchange views your participation as important for the following reasons:

- To create public awareness and solicit the public's feedback on the proposed Rule additions/amendments; and
- To improve the quality of the proposed Rule additions and amendments and thereby have a robust, well written set of Rules.

We are involving as many stakeholders as possible in this commentary 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 Rules additions and amendments.

IV. Response and Timeline

We will be grateful to receive your comments not later than the close of business on Wednesday, 23 March 2022. Please provide your comments in a **Microsoft Word document** attached to an electronic mail to Mr. Oluwatoyin Adenugba, Head, Rules and Adjudication at NGX RegCo via oadenugba@ngxgroup.com, **with copy to rad@ngxgroup.com**.

V. Approvals

Please note that the draft Rule additions and amendments are subject to approvals by the Securities and Exchange Commission, and the NGX RegCo Board.

Tinuade T. Awe,
CEO | NGX Regulation Limited
2 March 2022