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**CIRCULAR**

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January 8, 2020

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**INSURANCE POLICY FOR DEALING MEMBERS**

**I. Introduction**

In furtherance of the objectives of The Nigerian Stock Exchange (“The Exchange”) to support the efforts of the Securities and Exchange Commission (“the Commission”) towards enhancing Investor Protection, The Exchange engaged the Commission to consider the introduction of a mandatory insurance product for Dealing Members.

The main objective of the insurance product is to address the inadequacies of the existing Fidelity Bond (which is limited to theft/stealing, fraud or dishonesty, by an officer, employee and sponsored individual of a Dealing Member Firm). As such, the insurance product will cover fidelity guarantees, directors’ and officers’ liability, professional indemnity, legal liability, or other third-party claim, other risks associated with its products and services and compensation of aggrieved investors who have suffered pecuniary losses suffered in the circumstances listed in Section 198 of the Investment and Securities Act 2007 (“ISA”).

Further to the above, an Insurance product was developed for Dealing Members of The Exchange which can be utilized as an additional means to compensate investors and to address the inadequacies of the existing Fidelity Bond mentioned above. The Exchange consulted with the Association of Securities Dealing Houses of Nigeria (ASHON) and adopted a collaborative approach on the insurance product with representatives of the Dealing Member community on the benefits of the insurance product, general exclusions that cut across the insurance products and applicable premium based on the classification of Dealing Members.

**II. Amendment to Rule 27 of the Securities and Exchange Commission’s Rules (SEC Rules)**

On December 30, 2019, the Commission published an amendment<sup>1</sup> to **Rule 27: Fidelity Bond, the Securities and Exchange Commission Consolidated Rules (2013)**, which provides that: *All Capital Market Operators (CMOs) in line with Section 313 of the Investments & Securities Act 2007, Rule 27 (Fidelity Bond) has been amended with the creation of Rule 27A which, requires Dealing Members to maintain an Insurance policy to cover all aspects of the insured business activities and risks.*

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<sup>1</sup> Securities and Exchange Commission New Rules and Sundry Amendments as at 23 December 2019 - <https://sec.gov.ng/regulation/rules-codes/>

The amended Rule became effective December 23, 2019.

Also note the creation of **Rule 27A: Insurance Policy for Corporate Bodies Licensed as a Dealing Member of a Securities Exchange**, both of which have been annexed hereto for ease of reference.

In line with the amendment made to Rule 27(1) of the SEC Rules, Dealing Members are no longer required to maintain a Fidelity Bond issued by an insurance company. Instead, according to Rule 27A, Dealing Members are required to procure and maintain an insurance policy issued by an insurance company acceptable to the Commission. This insurance policy for Dealing Members of Securities Exchanges is expected to cover all aspects of the Dealing Members' business and the risks associated with its stockbroking operations in order to protect investors in the event of the occurrence of the risk or loss insured. Also, such insurance policy must take into cognizance any multiple securities exchange memberships held by the Dealing Member.

In addition, the rule further provides that, Dealing Members are required to maintain an insurance policy which shall where applicable, as may be determined by a securities exchange, name the securities exchange's investors' protection fund as the co-insured.

Pursuant to the foregoing, effective January 1, 2020, all Dealing Members are required to take up an annual insurance policy to cover the risks associated with their stockbroking operations.

Please note that the above obligation is mandatory and evidence of compliance should be forwarded to the Commission and The Exchange further to Rule 27A (1) and 27A (2) of the SEC Rules<sup>2</sup>.

### **III. Actions for Dealing Members**

Dealing Members who are currently processing their Fidelity Bond should immediately cease any further renewal effort of their existing Fidelity Bonds. Dealing Members who may have already renewed their Fidelity Bond prior to December 23, 2019, should contact the under listed email addresses with evidence of renewal for further information.

The Exchange will be holding a town hall meeting with Dealing Member Firms on Tuesday, January 14, 2020 to sensitize the Dealing Member community on the Insurance Product.

Details of the town hall meeting are as follows:

**Time:** 10.00 a.m. – 11:30 a.m. (First Session) - Chief Executive Officers.  
12.00 noon – 1:30 p.m. (Second Session) - Chief Compliance Officers.

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<sup>2</sup> Securities and Exchange Commission New Rules and Sundry Amendments as at 23 December 2019 - <https://sec.gov.ng/regulation/rules-codes/>

**Venue:** The Nigerian Stock Exchange (20<sup>th</sup> Floor)  
Stock Exchange House  
2/4 Customs Street |Lagos

For further information on the above, please contact the undersigned at [oshobanjo@nse.com.ng](mailto:oshobanjo@nse.com.ng) and [nsebdr@nse.com.ng](mailto:nsebdr@nse.com.ng).

Please be guided accordingly.



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