

**RULEBOOK OF THE NIGERIAN STOCK EXCHANGE**  
**(ADDITIONS TO DEALING MEMBERS' RULES)**

**PROPOSED RULES ON OUTSOURCING OF FUNCTIONS AND SHARED SERVICES**

**Definitions:**

Outsourcing	means hiring or engaging the services of a third party to perform planned or existing business operations and regulatory responsibilities that Dealing Members can otherwise perform in-house.
Shared Services	means the business operations, reporting, and regulatory responsibilities performed by the parent, subsidiary, or other entity within a group corporate structure (hereto referred to as "internal service provider") for a Dealing Member Firm, which that Dealing Member can otherwise perform within its specific entity.

**1. PERMISSIBLE OUTSOURCED FUNCTIONS/ROLES**

- 1.1 A Dealing Member may outsource the following business activities, roles, and functions to professional third party service providers only:
- (a) Accounting services
  - (b) Risk Management
  - (c) Internal Audit
  - (d) Research
  - (e) Human Resources
  - (f) Administration
  - (g) Legal Adviser
  - (h) Company Secretary
  - (i) Information Technology
  - (j) Client Service Manager.

**2. NON-OUTSOURCEABLE FUNCTIONS/ROLES**

- 2.1 A Dealing Member shall not outsource certain core business activities, roles, regulatory and compliance functions, including but not limited to the following:

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- (a) Roles and functions requiring registration with the Securities and Exchange Commission (SEC)
  - (b) Approved Person Roles:
    - (i) Directors
    - (ii) Managing Director/Chief Executive Officer
    - (iii) Authorized Dealing Clerks
    - (iv) Chief Compliance Officer
  - (c) Internal Control
  - (d) Head of Operations
  - (e) Sales Trader.
- 2.2 A Dealing Member seeking to outsource any of the activities listed under this section shall develop and implement policies to guide the assessment of how these activities can be outsourced, periodically review the effectiveness of those policies, and address outsourcing risks in an effective and timely manner.
- 2.3 The Board and Senior Management of a Dealing Member shall remain fully responsible to The Exchange for any and all functions that the firm outsources to a service provider, to the same extent as if the service were provided in-house.
- 2.4 The Dealing Member shall provide The Exchange, upon request in the course of examinations, regulatory investigations or as may be duly required at any time, with access to the books and records of service providers within its possession and in the custody of the service providers, as it relates to the outsourced activities.
- 2.5 No outsourced role or function shall be combined with an activity prohibited from being outsourced under these Rules.
- 2.6 All Dealing Members shall request for a No-Objection from The Exchange at least one (1) month before the outsourcing of any role.

### **3. FUNCTIONS/ROLES WHICH MAY BE COMBINED**

- 3.1 Dealing Members may adopt the following in-house function/role combinations:
- (a) Company Secretary/Legal Adviser
  - (b) Operations/ Information Technology
  - (c) Human Resources/Administration
  - (d) Internal Control/Internal Audit
  - (e) Compliance/ Risk Management

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- (f) Risk Management /Internal Control - provided that the Compliance function is not combined with the Internal Control function
  - (g) Compliance/Internal Control - provided that the Internal Audit function is not combined with the Internal Control function
  - (h) Compliance/ Company Secretary - provided that the Compliance function is not combined with the Internal Control or the Risk Management function
  - (i) Sales Trader/Client Service Manager.
- 3.2 For any roles/functions combined, the Board of a Dealing Member is required to ensure that its Risk Management Control Functions (Compliance, Risk Management and Internal Audit) are effectively performed for each role because the effectiveness of each role shall be assessed distinctly by The Exchange.

#### **4. SHARED SERVICES**

- 4.1 A Dealing Member operating within a corporate group structure may engage the services of another entity within its corporate group structure to provide it with shared services in the following roles and functions:
- (a) Risk Management
  - (b) Finance
  - (c) Internal Control
  - (d) Information Technology (IT)
  - (e) Client Services
  - (f) Internal Audit
  - (g) Research/Business Development
  - (h) Human Resources
  - (i) Administration/Facilities Management
  - (j) Legal Adviser
  - (k) Company Secretary
  - (l) Strategy.
- 4.2 A Dealing Member seeking to enter into a shared service arrangement shall have in place a shared services policy to guide the assessment of how these services can be shared.
- 4.3 The Board and Senior Management of a Dealing Member shall be responsible for the shared services policy and all activities undertaken under the policy. The effectiveness of all shared services provided by other entities within the Group shall be assessed by The Exchange during its routine examinations.

- 4.4 Notwithstanding the above provision, each Dealing Member seeking to enter into a shared service arrangement with an entity under the same corporate group structure shall request for a No-objection from The Exchange at least one (1) month prior to the commencement of the shared service arrangement.

The size, complexity and controls to mitigate the risks associated with any conflict of interest in the firm's operations will be considered by The Exchange in making its final decision.

## **5. RESPONSIBILITY OF DEALING MEMBER FIRMS FOR OUTSOURCED FUNCTIONS AND SHARED SERVICES**

- 5.1 The Dealing Member shall conduct a suitable due diligence exercise before selecting an appropriate third party and/or shared service provider; and shall monitor its on-going performance;
- 5.2 The Dealing Member shall design a written supervisory and monitoring process appropriately tailored to its respective business structure;
- 5.3 Each outsourcing and shared service arrangement shall be governed by a clearly defined and legally binding written contract between the Dealing Member and the respective third party and/or shared service provider. The nature and detail of the contract shall be appropriate to the materiality of the outsourced activity in relation to the on-going business of the Dealing Member. As such, the Dealing Member shall:
- (a) Be fully liable and accountable to The Exchange for the activities and services that are being outsourced or shared to the same extent as if the service were provided by the Dealing Member;
  - (b) Ensure that outsourcing and shared service arrangements do not deprive the Dealing Member's clients of their rights against the Dealing Member in any manner;
  - (c) Ensure that service providers protect confidential information regarding the Dealing Member's proprietary and other information such as client's information, from loss, manipulation, and intentional or inadvertent disclosure to, or receipt by unauthorized parties;
  - (d) Be liable to its clients for any loss incurred due to the failure of the third party and/or shared service provider;

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- (e) Be responsible for the resolution of a client's grievance which may arise from any default on the part of the third party and/or shared service provider;
  - (f) Ensure that it has a valid Service Level Agreement (SLA) with the third party and/or shared service provider which states clearly provisions which include the responsibilities of each party, contingency plans, timeline of service review and reporting, and termination of the contract;
  - (g) Ensure that the Service Level Agreement with the third party and/or shared service provider states precisely the resolution process for disputes that may arise in the course of a service delivery;
  - (h) Ensure that appropriate supervisory structures are put in place to monitor the services rendered and associated risks;
  - (i) Ensure that it annually assesses the third party and/or shared service provider's continued fitness and ability to perform the activities being outsourced or shared;
  - (j) Ensure that the third party and/or shared service provider's procedures as they relate to services being rendered to the Dealing Member, comply with applicable laws as well as Rules and Regulations of The Exchange and the Securities and Exchange Commission (SEC);
- 5.4 The Dealing Member shall whilst determining the appropriateness of outsourcing or sharing a particular activity, consider certain factors including:
- (a) the financial, reputational, and operational impact on the Dealing Member if the third-party/internal service provider fails to perform as expected;
  - (b) the potential impact of outsourcing or sharing a service on the Dealing Member's internal operations or provision of adequate services to its customers; and
  - (c) the impact of the outsourcing or sharing activity on the ability and capacity of the Dealing Member to conform with regulatory requirements and changes in the business environment.
- 5.5 The Exchange shall hold Dealing Members liable for any infraction(s) which may arise from the agreement with third-party/internal service providers or their acts or omissions.

## 6. SANCTIONS

6.1 A Dealing Member shall be liable to pay a fine not exceeding Two Hundred and Fifty Thousand Naira (~~₦~~250,000); in addition to any other sanction which The Exchange may deem fit to impose, if the Dealing Member:

- (a) Fails to obtain a No-objection from The Exchange before entering into an outsourced and shared service arrangement;
- (b) In the course of an examination, fails to provide proof that the role and function outsourced or shared within a corporate group structure is being performed in line with a valid Service Level Agreement.

EXPOSURE DRAFT