



MARKET MAKING RULES OF THE NIGERIAN STOCK EXCHANGE

RULES FOR MARKET MAKING ON THE NIGERIAN STOCK EXCHANGE

1.0 DEFINITIONS

In these rules, the under listed words and phrases are defined thus:

SEC:	the Securities and Exchange Commission
NSE:	the Nigerian Stock Exchange
Dealing Member:	a member company that has been granted a license to deal in securities by the NSE
Instruments:	securities as defined by the Investment and Securities Act as may be amended from time to time
Market Maker:	any Dealing Member who has undertaken, and been appointed by the NSE to enhance the market liquidity of a particular security
Market Making:	Unless the context otherwise requires, refers to the act of entering bid and offer prices in NSE's trading facilities for a specified security based on the requirements stipulated by NSE.
National Best Bid (NBB):	the highest quoted price a market participant is willing to pay for a particular security.
National Best Offer (NBO):	the lowest quoted price a market participant is willing to sell a particular security.
Primary Market Maker:	any Market Maker who has been appointed by NSE as the foremost liquidity provider of a particular security and has undertaken to assume the role.
Specified Security:	the security specified by NSE as available for market making.
Supplemental Market Maker:	any market maker who is appointed to act as a supplementary liquidity provider.
General Principles:	the primary responsibilities of Market Makers are to maintain a fair and orderly market in their securities of responsibility and generally to make a positive contribution to the functioning of the market. Each Market Maker must ensure that trading for the Market Maker's own account is reasonable under the circumstances, is consistent with just

and equitable principles of trading, and is not detrimental to the integrity of NSE or the market.

2.0 APPOINTMENT OF MARKET MAKERS

- 2.1 When NSE considers it to be in the interest of the market that liquidity in a specified security be improved, it may enter into agreements with Dealing Member-firms, one of whom shall assume the role of a Primary Market Maker for such security and the rest shall assume the role of Supplemental Market Makers.
- 2.2 NSE shall determine the minimum and maximum number of Supplemental Market Makers for a specified security.
- 2.3 A Primary Market Maker may act as Market Maker for more than one specified security.

3.0 ALLOCATION OF SECURITIES

- 3.1 At inception, NSE will create baskets of securities using the following parameters: Market Capitalisation, liquidity, Price, Growth vs Income. The baskets would be allotted to prospective Market Makers via blind draw.
- 3.2 For new issues, NSE shall, in consultation with the Issuer, appoint a Market Maker.
- 3.3. Where two or more Market Makers are contending for assignment of responsibility in respect of the same specified security, NSE shall, in consultation with the Issuer, break the tie using the following criteria:
 - a. Financial resources available to the Market Maker;
 - b. Experience, expertise and past performance as a Market Maker;
 - c. Operational capability;
 - d. Disciplinary history; and
 - e. Existing relationship between the Issuer and Market Maker
- 3.4 A Primary Market Maker who is desirous of exchanging or transferring one or more specified securities to another market maker in exchange for consideration shall submit a proposal in writing to NSE for review and determination.
- 3.5 NSE shall publish and regularly update the list of Market Makers and relevant information relating to their activities.



3.6 NSE retains the right to re-allocate a security or the entire basket, depending on the performance of the Market Maker.

4.0 REGISTRATION OF MARKET MAKERS

4.1 An applicant who intends to be a Market Maker for a specified security must be a Dealing Member of NSE and fulfill the following conditions:

- (a) Have a subsisting registration with the SEC;
- (b) Have a subsisting registration with the Central Securities and Clearing Systems Limited;
- (c) Have and maintain the minimum paid up capital requirements as determined by NSE from time to time; and
- (d) Have at least 2 personnel who are Authorized Clerks of core stock broking experience of not less than 5 years.

4.2 In addition to the conditions in Rule 4.1, an applicant shall also fulfill the following requirements:

- (a) Have in place, facilities and personnel adequate for the expeditious and orderly carrying out of its business of market making; and
- (b) Have in place, proper supervisory programme and a system of internal controls to ensure the following:
 - (i) Proper conduct of the business of market making;
 - (ii) Proper undertaking of risk management;
 - (iii) Proper management of conflict of interest; and
 - (iv) Compliance with these Rules.

5.0 APPLICATION PROCEDURE

5.1 An applicant is required to apply as a Market Maker in respect of each specified security that it intends to make market.

5.2 The applicant must comply with application procedures and submit the relevant information and documents as determined by NSE.



- 5.3 NSE may after giving an applicant appropriate notice and opportunity to be heard, reject an application to register as a Market Maker notwithstanding that such applicant satisfies the applicable qualification criteria set forth in these Rules.
- 5.4 If an application for approval as a Market Maker is refused, no further application by the same Dealing Member shall be considered within a period of ninety (90) days after the date of refusal.
- 5.5 An applicant will be notified in writing of the decision of NSE of its application.

6.0 OBLIGATIONS

- 6.1 A Primary Market Maker shall fill order imbalances at the Opening and Closing auctions on any given day and will provide liquidity to reduce or eliminate imbalances.
- 6.2 A market maker in a specified security shall maintain a continuous two-sided quote during regular market hours that are within a certain percentage band of the National Best Bid and Offer (NBBO).
- 6.3 Quotes shall be equal to or better than the National Best Bid Offer (NBBO) for a minimum percentage of continuous trading time during the mandatory period, as stipulated by NSE, on a security by security basis.
- 6.4 A Market maker shall not quote outside the trading band for any given day.
- 6.5 The minimum /maximum trading band on any given trading day shall be as determined by the NSE.
- 6.6 Where there is wide price movements in a particular security for more than two days, NSE may on the request of a market maker, suspend or vary the market maker's obligations.
- 6.7 A Market Maker is required to designate a trader within the firm for each security that has been assigned by NSE to such Market Maker, and:
 - (a) Shall provide NSE with the names of all Designated Traders and their security assignments, and forthwith advise NSE of any change to such information.
 - (b) Notwithstanding the appointment of the Designated Traders, shall continue to be responsible for the market making obligations relating to the relating to the securities assigned to the firm.

Exceptions

- 6.8 A market maker has no obligation to maintain executable quotes:
- (a) In a security during the opening auction or where an unscheduled intra-day auction has been triggered due to price monitoring breach.
 - (b) A market maker's quoting obligations shall be suspended during a trading halt, suspension or pause, and shall not re-commence until after the first regular-way transaction following that halt, suspension or pause. The quoting obligation will commence as soon as there has been a regular-way transaction on the security.
 - (C) A market maker is not expected to enter a quote based on the prior day's last sale at the commencement of regular trading hours if there is no National Best Bid ("NBB") or National Best Offer ("NBO").

7.0 CONTINUING OBLIGATIONS

- 7.1 The following conditions shall apply to a Market Maker throughout the term of its registration:
- (a) The Market Maker shall comply with the qualification criteria stated in these Rules;
 - (b) The Market Maker shall notify NSE of the following in writing:
 - (i) any change in capital that causes the Market Maker to fall below the minimum paid up capital requirements;
 - (ii) any change that would disqualify it as a Market Maker based on these Rules;
 - (iii) any change in the place of business of the Market Maker;
 - and
 - (iv) change in name of the Market Maker.
 - (c) The Market Maker is bound by and shall comply with these rules and directives and such rules and directives as may be issued by NSE from time to time.

8.0 BENEFITS TO MARKET MAKERS

The Market Maker shall have the following benefits:

- a. The privilege of determine the opening and closing price of the security where they act as Primary Market Maker.
- b. Privilege to enjoy from a rebate scheme if they hit certain thresholds.

9.0 RESIGNATION

- 9.1 If a Market Maker wishes to resign as a Market Maker of a specified security, it shall give a written notice to NSE of its intention to resign not less than thirty (30) days prior to the proposed date of resignation.
- 9.2 NSE may accept the Market Maker's resignation subject to any conditions imposed by NSE.

10.0 TERMINATION, SUSPENSION OR RESTRICTION OF MARKET MAKING ACTIVITY

- 10.1 NSE may automatically suspend or terminate a Market Maker or restrict its market making activities, upon the happening of all or any of the following events:
 - (a) The Market Maker has been wound up whether on a voluntary basis or otherwise;
 - (b) A receiver / manager, provisional liquidator or liquidator has been appointed for the Market Maker;
 - (c) The Market Maker fails to fulfill any of the requirements;
 - (d) The Market Maker is convicted of any offence in or outside Nigeria or had disciplinary action taken against it and its officers for breaches involving dishonesty or fraud; or
 - (e) The Market Maker continuously breaches its obligations for a period determined by NSE.

10.2 NSE shall notify SEC when it suspends, terminates, or restricts a dealing member from market making activity, and shall state the reasons thereof.

11.0 BID AND OFFER PRICES

11.1 A Market Maker for a specified security must enter bid and offer prices into NSE's trading facilities for the purpose of buying and selling of the specified security as follows:

- (a) with a minimum presence as stipulated by NSE;
- (b) within the maximum spread allowed by NSE; and
- (c) must not be less than the minimum quantity allowed by NSE.

11.2 The NSE may prescribe certain circumstances in which a Market Maker is exempted from entering bid and offer prices as required under Rule 11.1.

12.0 SPREAD MAINTENANCE

12.1 Primary Market Makers shall maintain the spread goal agreed upon with NSE in each of their securities of responsibility on a time-weighted average basis.

12.2 NSE shall monitor the spreads on an ongoing basis, and assess the performance of Market Makers on a monthly basis.

12.3 The Primary Market Maker shall notify NSE if for any reason it is unable to maintain its spread goal.