

RULES GOVERNING COMPLIANCE OFFICERS OF DEALING MEMBER FIRMS¹

1. INTRODUCTION:

These rules are made pursuant to Article 15 of the Rules and Regulations Governing Dealing Members (the Rules) and Section 6 of Policy No.01 NSE; and derive their force there from.

Article 15 of the Rules, as well as global best practice, requires that financial institutions adopt and implement robust compliance programs as part of good corporate governance practice, and appoint competent compliance officers to oversee their compliance. Compliance officers have an important role to play in the implementation and enforcement of capital market operators' compliance programs. They are required to ensure that internal processes and procedures are followed, ensure strict adherence to industry guidelines, external regulatory framework as well as policies set out by law. The Compliance Officer is required to report breaches and violations to the appropriate regulatory authorities. He acts as an internal advisor and carries out monitoring of the various business units to ensure that the firm's activities conform to regulatory requirements.

The Compliance Officer serves as an important contact point between Dealing Member Firms and the Regulator(s), handling and responding to various regulatory enquiries, conducting monitoring assessments, etc. Given the importance of the Compliance function, it is crucial that the regulator(s) as well as senior management of Dealing Member Firms of the Nigerian Stock Exchange ("Dealing Member(s)" or "Dealing Member Firm(s)") sufficiently empower Compliance Officers and prescribe ways of ensuring that they are adequately protected to effectively carry out their duties.

¹ **Rule Making History**

1. The rules were presented to the Rules and Adjudication Committee (RAC) on 13 May 2013 for consideration;
2. The RAC approved the rules on 22 May 2013 for submission to Council;
3. The rules were approved by Council on 30 May 2013 for exposure to stakeholders from 7 to 21 June 2013 for their comments - comments were received from 3 Dealing Members and the Compliance Officers Rules Review Committee;
4. Stakeholders comments were reviewed by the RAC at its retreat of 18 to 19 October 2013 – directions were given on revisions to be made and RAC approved the revised rules for submission to Council;
5. The revised rules were submitted to Council at retreat of 23 and 24 November 2013;
6. Submitted to the Securities and Exchange Commission for approval, under cover of letter dated 4 December 2013;
7. The draft Rules were reviewed at the SEC Rules Committee meeting of 30 January 2014;
8. The SEC's approval of the rules was received on 17 June 2014.



2. PURPOSE

- a. The Exchange in setting out these rules seeks to ensure that the requisite requirements are in place for:
 - i. Appointment of Compliance Officers;
 - ii. Defining their scope of roles, responsibilities and obligations; and
 - iii. Securing the protection of the Compliance Officer.

- b. These rules lay down the framework within which the Compliance Officers of Dealing Member Firms shall operate; and outline the basic responsibilities of the compliance function by:
 - i. Providing clarity to enable Compliance Officers carry out their duties effectively and efficiently.
 - ii. Highlighting the importance of the Compliance Officer in an organization and distinguishing the independence of their role from that of any other role in the firm.

3. APPOINTMENT OF COMPLIANCE OFFICERS:

Persons to be appointed as Compliance Officers in a Dealing Member Firm shall meet the following qualification requirements:

- i. A minimum educational qualification of a university degree or a higher national diploma from a recognized tertiary institution, or professional qualification in the field of Law, Accounting, Actuarial Science, Auditing, Finance, Economics or any other relevant discipline;
 - ii. A minimum of 4 years' experience in the capital market with proven understanding of the operations of the capital market and relevant regulatory requirements;
 - iii. Proficiency in the use of I.T. and desktop automated tools and programs;
 - iv. Satisfactory completion of The Exchange's mandatory Compliance Officers' training program;
 - v. The individual shall pass the 'Fit and Proper' evaluation as prescribed by The Exchange from time to time. When determining fitness and propriety, The Exchange will take into consideration, among other things, the individual's competency to carry out the Compliance function, his character and integrity. The Exchange has the discretion to object to the appointment of any person as a Compliance officer.
- 3a. Chief Compliance Officer:

The Exchange recognizes the variety of compliance departmental structures that exist, e.g. the sole compliance officer operating in a flat structure and the complex hierarchical



structure where several compliance officers report to a Chief Compliance Officer. Regardless of the internal structure the Compliance Officer finds himself in, The Exchange accords full and total recognition to whomsoever the Dealing Member Firm chooses to register with The Exchange as its Compliance Officer. It is mandatory for all Dealing Member Firms to register a compliance officer with their Regulator. The individual registered as Compliance Officer will be treated, for all intents and purposes, as the 'Chief Compliance Officer' of that Dealing Member Firm.

It is necessary to note as follows:

- i. To qualify for appointment as Chief Compliance Officer of Dealing Member, a Compliance Officer shall have either:
 - a. Undertaken and completed relevant courses recognized and certified by The Exchange; or
 - b. Undertaken and completed the relevant courses under the *Compliance Officers Training Program* of The Exchange.
 - ii. The Chief Compliance Officer shall not be below the rank of a Head of Department. His role should not be combined with any other role or function within the Dealing Member Firm. The Chief Compliance Officer shall remain independent and neutral at all times to safeguard against the possibility of a conflict of interest.
 - iii. The Exchange shall not permit the fusion of any role and/or function within the organization with that of the Compliance Officer to prevent any potential of conflict of interest. Neither should the Compliance Officer be assigned any competing assignments.
 - iv. Notwithstanding the above, the office of a Chief Compliance Officer may only be combined with the roles of a Company Secretary or Legal Adviser or Head of Legal, provided that the Company Secretary or Legal Adviser or Head of Legal shall be a person that has the requisite knowledge and experience of capital market operations and has undergone the relevant training as prescribed by The Exchange.
 - v. The process for the appointment and removal of a Chief Compliance Officer shall be approved by the Board of Directors of the Dealing Member firm.
- 3b. Identification of Compliance Officers to The Exchange:

By virtue of Article 15(c) of the Rules and Regulations Governing Dealing Members, all Compliance Officers shall be identified to The Exchange.

Dealing Member Firms are obligated to formally inform The Exchange of the appointment of their Compliance Officers within five working days of appointment.



The following documents shall accompany the notice informing The Exchange:

- i. Detailed curriculum vitae
- ii. Signature specimen
- iii. Letter of registration or acknowledged sponsored individual registration application with the Securities and Exchange Commission (SEC) as Compliance Officer. Where an acknowledged sponsored individual registration application is provided, a definitive SEC registration letter as a Compliance Officer must be forwarded to the Exchange within 3 months.
- iv. Evidence of completion of the Compliance Officers Training Program (for Chief Compliance Officers)

4. DEFINITION OF ROLES, RESPONSIBILITIES AND OBLIGATIONS:

4a. Roles and Responsibilities:

- i. As stated in Article 15(c) of the Rules and Regulations Governing Dealing Members, Compliance Officers have the role of advising Dealing Member Firms and their employees on the application of the Rules.
- ii. A Compliance Officer shall have the ability to interpret and apply legislation, rules, regulations, guidelines, policies and other regulatory requirements relevant to the capital market. This includes continuous monitoring and implementation of relevant regulations, codes and rules in force from time to time, preparation and submission of regulatory reports as at when due and adopting relevant industry and market best practices in order to minimize and/or mitigate risks.
- iii. The Compliance Officer shall focus on activities that assess, determine and ensure compliance by the Dealing Member Firm, with both internal and external rules and policies.
- iv. The Compliance Officer shall also monitor regulatory changes and ensure the dissemination of updates on regulations, rules or guidelines and periodic compliance changes to the Dealing Member and its employees. He shall carry out compliance monitoring covering all operational areas.
- v. The Compliance Officer shall ensure that all investments and other operational transactions comply with all relevant legislations, regulations and policies through appropriate control of systems in order to minimize and mitigate risks.

- vi. The Compliance Officer shall be responsible for the preparation of compliance reports on a monthly, quarterly, bi-annual and annual basis as the case may be to the Board of the Dealing Member and report breaches of regulations to The Broker Dealer Regulation department of The Exchange.
- vii. The Compliance Officer, with the support of the Dealing Member's board and management, shall develop and implement a robust compliance program which is periodically revised to reflect changes in the requirements of the organization, the laws, rules, regulations, guidelines and policies of relevant regulatory authorities.
- viii. The Compliance Officer shall be responsible for developing, coordinating, and participating in educational and training programs that focus on the elements of the capital markets regulatory environment, and shall also ensure that all management and other employees are knowledgeable of, and comply with relevant rules and regulations.
- ix. The Compliance Officer shall be responsible for developing policies and programs that encourage managers and employees to report violations, suspected violations and breaches without fear of victimization.

4b. Obligations:

- i. Article 15(c) of the Rules and Regulations Governing Dealing Members obligates the Compliance Officer to report to The Exchange any violation of the Rules within 24 hours of his/her knowledge of such violation. The Compliance Officer is responsible for fully disclosing violations and ensuring that appropriate remedial or disciplinary action is taken where violations are identified.
- ii. Notwithstanding the above, the Dealing Member Firm shall be appropriately sanctioned for any violation and be responsible for all the actions of its employees as provided under Article 92 of the Rules.
- iii. The Exchange shall report to his/her regulating professional body any Compliance Officer that neglects or deliberately fails to report any violation observed by him/her to The Exchange as required by Article 15(c).

5. PROTECTION OF COMPLIANCE OFFICERS

- i. The Chief Compliance Officer shall be a senior member of management in the organizational structure of the Dealing Member Firm, with a direct reporting line to the

Managing Director/Chief Executive Officer and a second reporting line to the Board of Directors.

- ii. The Board of Directors of a Dealing Member shall put in place a system to ensure sufficient protection of the Compliance Officer for the purpose of performing the roles and functions expected of him.
- iii. Upon the appointment of a Compliance Officer, the Dealing Member Firm shall be required to forward a copy of the letter of employment or letter of redeployment as the case may be, stating the conditions of service.
- iv. The Dealing Member shall not unduly deny the Compliance Officer any entitlements including but not limited to promotions, salary increases, commendations, training, or any other form of compensation and rewards;
- v. The Compliance Officer shall attend management meetings to ensure that decisions reached at such meetings are in compliance with relevant laws, rules etc.
- vi. The Compliance Officer shall attend all general Compliance Officers' meetings that may be called by The Exchange and/or SEC from time to time;
- vii. The Compliance Officer shall be entitled to communicate with any member of staff for the purpose of accessing documents necessary for the performance of his/her duties;
- viii. The Compliance Officer shall be entitled to compel any staff to promptly supply information, explanation, documents as may be required by relevant authorities from time to time;
- ix. The Compliance Officer shall be entitled to report any perceived discrimination, and/or maltreatment to The Exchange;
- x. The Compliance Officer shall be entitled to defend any allegation against him by the Dealing Member and The Exchange shall make its decision thereof.
- xi. No Dealing Member shall remove a Compliance Officer from office whilst investigations are ongoing concerning any allegation made by the Compliance Officer.
- xii. The Dealing Member shall not terminate or redeploy the appointment of a Compliance Officer without prior notification and clearance from The Exchange, stating the reason(s) for the termination. Failure to obtain clearance from the Exchange before terminating or



redeploying the appointment of a Compliance Officer shall attract a financial penalty of not less than Five Hundred Thousand Naira and suspension from trading on the floors of The Exchange.

Provided that the Compliance Officer may only be removed during such period where the grounds for his removal are not motivated by the allegation made by the Compliance Officer.

6. TERMINATION/RESIGNATION OF APPOINTMENT

- i. The Compliance Officer may be removed by the Board of Directors provided he is given a notice:
 - a. Stating that it intends to remove him from office; and
 - b. Setting out the grounds on which it intends to remove him; and
 - c. Giving him a period of not less than five working days within which to make his representations.
- ii. The Board of Directors shall satisfy itself that the grounds upon which the removal of a Compliance Officer is sought are reasonable and equitable and are in the overall interests of the Dealing Member; and such removal shall be notified to The Exchange in writing within five working days.
- iii. Dealing Member Firms shall, within five working days of the resignation of a Compliance Officer, notify The Exchange of such resignation in writing, stating the reason for the Compliance Officer's resignation and giving details of an Acting Compliance Officer, along with his credentials, for the Exchange's approval. The Acting Compliance Officer shall possess the requisite educational qualifications, skills and experience required for the role.
- iv. The Compliance function shall never be left vacant at any point in time, and upon a vacancy occurring, an Acting Compliance Officer shall be appointed immediately to carry out the duties until a substantive Compliance Officer is appointed.
- v. An Acting Chief Compliance Officer may be a senior member of management i.e. a Director or another compliance officer in the Dealing Member Firm.
- vi. The position of an Acting Chief Compliance Officer cannot be held for more than two consecutive months. Consequently, a new Chief Compliance Officer shall be appointed within two months of the resignation or removal of the former Chief Compliance Officer.

- vii. Where a termination/transfer/redeployment of a Compliance Officer is at the instance of the Dealing member, prior clearance shall be obtained from The Exchange in writing.

7. PENALTIES

- i. The Exchange is committed to building a capital market with a minimal level of infraction rates, and recognizes the need to work closely with Compliance Officers that are well enlightened and empowered to carry out their duties effectively.
- ii. In view of the foregoing, Dealing Member Firms are required to adhere strictly to these rules as a breach shall be treated very seriously and The Exchange shall sanction Dealing Member Firms found to be in violation of them.
- iii. Failure to appoint and identify a Compliance Officer to the Exchange may result in a fine of not less than Five Hundred Thousand Naira or suspension from trading on the floors of The Exchange, or both.