



RULEBOOK OF THE NIGERIAN STOCK EXCHANGE

**RULES GOVERNING THE INCLUSION OF RETAIL PARTICIPANTS IN
SECURITIES LENDING TRANSACTIONS¹**

Definitions

“Intermediary Agent”	means a Dealing Member who a beneficial owner has authorized to lend securities on its behalf.
“Principal Intermediary”	means a lending agent who lends securities on behalf of a beneficial owner to the borrower it sources and assumes principal risk, offers credit intermediation and takes a position in the securities lent to the borrower i.e. it guarantees the return of the equivalent securities of the same type and class to the lender along with the corporate benefits accrued on them during the tenure of the borrowing and agrees to be liable for making good any loss caused by the failure of borrower to return the securities or corporate benefits.
“Retail Lender”	means the Beneficial Owner of securities who participates in a securities lending transaction.
“Securities Lending Agent”	means a company duly registered as a market maker, custodian, licensed Dealing Member or any other market participant by the Securities and Exchange Commission, through whom the lender will deposit the securities for lending and the borrower will borrow the securities.

¹ Rule Making History

1. The draft Rules were considered by the Rules and Adjudication Committee of Council (RAC) on 21 October 2014, and approved for exposure to stakeholders for comments.
2. The draft Rules were exposed for stakeholders’ comments from 29 October to 12 November 2014;
3. The RAC considered the draft Rules and stakeholders’ comments thereon at its meeting of 17 February 2015, and approved the draft Rules for submission to the National Council of the Exchange (Council);
4. The Council approved the draft Rules at its meeting of 26 February 2015 for submission to the Securities and Exchange Commission (SEC);
5. The Council approved Rules were submitted to the SEC for approval on 5 March 2015.
6. The SEC approved the Rules on 17 March 2016.

1.0 General Standards

- 1.1 Any beneficial owner of securities that intends to participate in a securities lending program shall enter into a Securities Lending Agreement with an Intermediary Agent that is approved by The Exchange.
- 1.2 For the purposes of these Rules, the Beneficial Owner of securities may participate as retail lenders in a securities lending transaction and be known as a Retail Lender(s).
- 1.3 All Retail Lenders shall as far as is possible ensure that there are no legal obstacles or encumbrances in the way of their participation in securities lending transactions; and shall familiarize themselves as far as possible with the rules, procedures and conventions of the market in order to fully comprehend the securities lending business and its associated risks.
- 1.4 These Rules shall apply to all Dealing Member firms of The Exchange who intend to act as Intermediary Agents between Retail Lenders of securities and Securities Lending Agents registered by the Securities and Exchange Commission (the Commission).

2.0 Eligibility

- 2.1 Any Dealing Member firm desirous of acting as an Intermediary Agent shall apply in writing to The Exchange for a licence in that regard.
- 2.2 A licensed Dealing Member firm shall be eligible to act as an Intermediary Agent provided it meets the following eligibility criteria laid down by The Exchange:
 - a. Is registered with the Commission and the Central Securities Clearing System Plc. (CSCS);
 - b. Has maintained a good disciplinary history with The Exchange; and
 - c. Is in good financial standing with the Commission, The Exchange and the CSCS.

3.0 Reporting and Administrative Requirements

3.1 Maintenance of Records

Each Intermediary Agent shall in addition to keeping sufficient identification records on each retail lender, maintain adequate records at all times detailing the following information amongst others:

- a. Retail Lender's securities available for lending;



- b. Retail Lender's securities currently on loan and the institutions to which the securities have been loaned;
- c. Necessary documents/mandates evidencing the consent/authority/sign off of the Retail Lender for his/her securities to be used for the Securities lending program.

3.2 Administrative Procedures

Each Intermediary Agent shall observe the following administrative procedures, amongst others:

- a. Carry out a fair allocation of security loans from all pooled securities on a first in first out basis;
- b. Render weekly returns of movement of Retail Lenders' securities in its custody.

3.3 Each Intermediary Agent shall ensure that it receives the appropriate mandate from the Retail Lender or from a party suitably authorized by the Retail Lender, authorizing the lending of the securities.

4.0 Movement of Securities

4.1 No Intermediary Agent shall be permitted to move securities from the Retail Lender's account unless it complies with these Rules.

4.2 Movement of securities under a Securities Lending Agreement shall only be permitted where a Retail Lender enters into a Securities Lending Agreement with an Intermediary Agent for movement of securities.

5.0 Securities Lending Procedure

5.1 Intermediary Agent's Role

5.1.1 Each Intermediary Agent shall as far as possible ensure that the Retail Lender is familiar with the rules, procedures and conventions of the market in order to fully comprehend the business and its associated risks.

5.1.2 Each Intermediary Agent shall render monthly reports to the Retail Lender providing full details of their Securities Lending transactions such as historical loan securities records, open loans records and records of securities available for lending.

5.1.3 Every securities lending transaction shall be carried out only upon the execution of a Securities Lending Agreement between the Intermediary Agent and the Retail Lender.



- 5.1.4 In line with its agreement with the Retail Lender, an Intermediary Agent shall on behalf of the Retail Lender, enter into a Securities Lending Agreement with a Securities Lending Agent.
- 5.1.5 The Intermediary Agent shall pool together the Retail Lender's securities for lending purposes and allocation to the relevant Securities Lending Agents and shall confirm the terms of the security lending and allocation criteria to the Retail Lender.

5.2 Securities Lending Agent's Role

The Securities Lending Agent shall include:

- a. Receiving from the Intermediary Agent the securities to be lent;
- b. Receiving appropriate collateral from the Borrower;
- c. Managing the collateral as specified in the Commission and The Exchange's relevant Rules and Guidelines.
- d. Moving securities to the Borrower's account;
- e. At the agreed time, receiving securities from the Borrower and return the collateral deposited by the Borrower.
- f. Other responsibilities pertaining to the day to day functions of the Securities Lending Agent.

5.3 Borrower's Role

The Borrower shall initiate the loan transaction, negotiate the terms with the Securities Lending Agent and shall:

- a. Prior to receiving the securities, submit the collateral in agreed form and quantity to the Securities Lending Agent; and
- b. At the agreed period, return the securities and collect the collateral deposited by it with the Securities Lending Agent.

6.0 Fee Disclosure

An Intermediary Agent shall ensure transparency at all times, especially with respect to the fee earned on every security loan and the fee shall be disclosed to the Retail Lender.

7.0 Sanctions

Any Intermediary Agent or Securities Lending Agent that violates any of the provisions of these Rules shall be liable to any one or combination of the following penalties:

- a. Public censure;
- b. Blacklisting;
- c. A fine to be determined by The Exchange based on the circumstances;
- d. Withdrawal of its licence as an Intermediary Agent; or
- e. Recommendation to the Commission that it should be sanctioned or that its licence should be withdrawn.