

**SECURITIES & EXCHANGE COMMISSION**

**&**

**CENTRAL BANK OF NIGERIA**

**GUIDELINES**

**ON**

**SECURITIES SETTLEMENT IN NIGERIA**

**December 2016**

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Table 1: The details of trading, post-trade clearing and settlement in Nigeria

## **1.0 Preamble**

Pursuant to the powers of the Securities & Exchange Commission (SEC) conferred on it by section 13 and further section 312 (3) of the ISA 2007 and in exercise of the powers conferred on the Central Bank of Nigeria (CBN) by section 47 (2) of the CBN Act 2007 to promote and facilitate the development of efficient and effective systems for settlement of transactions, the SEC and the CBN hereby issue the following guidelines for the settlement of all types of securities in Nigeria

## **1.1 Objectives**

The main aim of this guideline is to promote competitive, efficient, safe and sound post trading arrangements in Nigeria. This should ultimately lead to greater confidence in securities markets and better investor protection and should in turn limit systemic risk. In addition, the guidelines seek to improve the efficiency of the market infrastructure, which should in turn promote and sustain the integration and competitiveness of the Nigerian securities markets.

## **1.2 Scope of the Guidelines**

The guidelines set out the procedures for the settlement of securities in Nigeria, including the rights and obligations of the parties. It also covers the settlement procedures and settlement cycle for the trades executed in the following exchanges:

- i. The Nigerian Stock Exchange traded securities.
- ii. FMDQ Over The Counter (OTC) Securities.
- iii. NASD Over The Counter (OTC) Securities
- iv. Nigerian Commodity Exchange (NCX) traded securities.
- v. Afex Commodities Exchange.

## **1.3 Parties to Securities Settlement in Nigeria:**

Parties to Securities Settlement in Nigeria shall include but not limited to:

1. Capital Market Registrars.
2. Central Bank of Nigeria
3. Central Securities Clearing System (CSCS) PLC (Central Securities Depository-Clearing & Settlement Agent)
4. Custodians
5. Dealing Members Firms

6. Deposit Money Banks (DMBs).
7. Discount Houses.
8. FMDQ OTC
9. Investors.
10. NASD OTC
11. Nigerian Commodity Exchange (NCX)
12. Nigeria Inter-Bank Settlement System PLC (NIBBS)
13. Nigerian Stock Exchange (NSE)
14. Payment /Infrastructure Service Providers.
15. Securities & Exchange Commission
16. Commodity Warehouses
17. Other Financial Institutions (OFIs) as may be approved by the CBN or SEC in the future.
18. Afex Commodities Exchange

The below table depicts the details of trading, post-trade clearing and settlement

Table (1)

Market	Asset Class	Trading Platform	Clearing	Settlement	
				Securities	Cash
Stock Market	Equities, ETFs, Mutual Funds	NSE	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS
Unlisted Company Equities	Equities	NASD	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS
Bonds	Bonds	NSE, FMDQ	CSCS	Delivery Versus Payment CSCS, CBN S4	Via settlement banks and CBN S4
Money Market,	Treasury Bills, CPs and other notes	FMDQ	CBN, CSCS	CBN CSCS	CBN S4 DMBs
Commodities market	Commodities	NCX	CSCS	Delivery Versus Payment CSCS	Via settlement banks CBN RTGS

Securities lending)	Equities & Bonds	NSE	CSCS	CSCS	Settlement banks
Currency	FX	FMDQ	CBN	CBN	CBN RTGS

**Table 1: The details of trading, post-trade clearing and settlement in Nigeria**

## **2.0 Securities Settlement Rules and Procedures:**

As a general rule, any securities transaction must trade or be reported through a licensed Exchange in line with the standard settlement guidelines

### **2.1 The Exchange Traded Securities (Equities, ETFs, State, Corporate & Supranational Bonds:**

- 2.1.1 After each day's transaction (Day T), the clearing/settlement agent (CSCS) shall generate the financial obligations of each dealing member firms.
- 2.1.2 The clearing/settlement agent shall sort the financial positions of the dealing member firms based on their respective settlement banks to arrive at net position per settlement banks.
- 2.1.3 The clearing/settlement agent shall alert both the settlement banks and the dealing member firms of their net positions on Day T
- 2.1.4 On Day T+2 for Equities and T+1 for Bonds, the clearing/settlement agent shall transmit the final financial net settlement obligation of dealing member firms to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)
- 2.1.5 Where the clearing/settlement agent has direct access to the CBN RTGS, the clearing/settlement agent shall transmit the final financial net settlement obligation of the settlement banks to the CBN RTGS at the same time when the security records are updated so as to achieve simultaneous Delivery versus Payment (DVP).
- 2.1.6 On settlement day (i.e. Day T+3 for Equities and day T+2 for Bonds), the clearing/settlement agent deliver the security while the payment system agent applies the net settlement advice against the settlement bank account with CBN. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective dealing member firm.
- 2.1.7 On settlement day, the clearing/settlement agent shall update the record of the investors (buyers & sellers) with the registrar.

- 2.1.8 On settlement day, the dealing member firms shall update the cash accounts of their respective investors/customers with the proceeds from the trade less charges/commission.
- 2.1.9 The dealing member firms shall debit/credit the customer account not later than the next working day.

## **2.2 The Exchange Traded Securities (Federal Government Securities):**

- 2.2.1 After each day's transaction (Day T), the clearing/settlement agent shall generate the financial obligations of each dealing member firms.
- 2.2.2 The clearing/settlement agent shall generate the financial positions of the dealing member firms based on their respective settlement banks to arrive at net position per settlement banks.
- 2.2.3 The clearing/settlement agent shall alert both the settlement banks and the dealing member firms of their net positions on Day T
- 2.2.4 On Day T+1, the clearing/settlement agent shall transmit the final financial net settlement obligation of dealing member firms to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)
- 2.2.5 Where the clearing/settlement agent has direct access to the CBN RTGS, the clearing/settlement agent shall transmit the final financial net settlement obligation of the settlement banks to the CBN RTGS at the same time when the security records are updated so as to achieve simultaneous Delivery versus Payment (DVP).
- 2.2.6 On settlement day i.e. day T+2, the clearing/settlement agent delivers the security while the payment system agent applies the settlement advice against the settlement bank account. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective dealing member firm.
- 2.2.7 On settlement day, the clearing/settlement agent shall update the record of the investors (buyers & sellers) with the registrar.
- 2.2.8 On settlement day, the dealing member firms shall update the cash accounts of their respective investors/customers with the proceeds from the trade less charges/commission.
- 2.2.9 The dealing member firms shall debit/credit the customer account not later than the next working day.

## **2.3 Federal Government Securities (Primary Auction):**

- 2.3.1 After the release of auction result, the Government Securities Issuing Agent shall notify each successful Bidder (primary dealer) their financial obligations.
- 2.3.2 The successful Bidder shall fund its account with the Government Securities Issuing Agent for settlement on or before Day T+2.
- 2.3.3 The Government Securities Issuing Agent shall debit the cash account of successful Bidder on Day T+2 and credit their securities portfolio account (DVP)
- 2.3.4 Where the cash account of successful Bidder is not funded on Day T+2, the Government Securities Issuing Agent reserves the right to cancel the trade.
- 2.3.5 On settlement day, Day T+2, the primary dealer shall transfer the securities to the respective investor CSD or Custodian account as indicated on their application

## **2.4 Commodities Exchange Spot Market Trades**

- 2.4.1 All buying dealing members shall adequately fund their trading accounts before carrying out any trading transactions. The selling dealing members must deposit their commodities in any of the accredited/delivery warehouses before making an offer on the Exchange.
- 2.4.2 Buying dealing members shall fund their accounts to the full value of their trading volume before commencement of trading session on Day T.
- 2.4.3 After the trading session on Day T, the Commodity Exchanges shall transmit the trading/transaction details to the clearing/settlement agent (CSCS) for computation of settlement obligations of all parties of the transaction
- 2.4.4 On Day T + 2, clearing/settlement agent shall transmit the final financial net settlement obligation of the transactions parties to settlement banks through a payment system agent (if the clearing/settlement agent has no direct access to the CBN RTGS)
- 2.4.5 On settlement day i.e. day T+3, the clearing/settlement agent will electronically deliver the commodity while the payment system agent applies the settlement advice against the settlement bank account. On same day, settlement banks shall equally credit or debit (funds) the bank account of the respective transaction parties.

2.4.6 On settlement day, the clearing/settlement agent shall update the record of the commodity holders (buyers & sellers) with the warehouse.

## **2.5 Investor's Payments Procedure**

2.5.1 Customers account should be credited with proceeds from sale of their securities directly into their bank account or deposit into their stock broking account or other acceptable payment modes.

2.5.2 Payments shall reach the beneficiary's account not later than the next working day after settlement.

## **2.6 Dividend and Interest Payment**

2.6.1 Issuers issuing dividends/interests shall make funds available to the Registrar not later than seven working days after approval.

2.6.2 Registrars shall obtain account details of investors for the purpose of electronic payment of dividend and interest.

2.6.3 The Registrars shall pay dividend to investors electronically on due date and advise the investors through a credit advice.

2.6.4 Banks shall credit the account of investors not later than T+1 from the date of receipt of mandate and funds from the Registrars.

2.6.5 Where the banks cannot apply funds into some investors account, the funds and a schedule containing the list of the affected investors shall be returned to the Registrar on or before Day T+2 with reasons for the rejection.

2.6.6 The Registrar shall contact the affected investors within two working days to correct or supply the required information and a copy of the list of affected investors and reasons for rejection shall be sent to SEC.

2.6.7 Upon receipt of the required information, the Registrar shall re-send the funds and the payment details to the banks within two working days.

2.6.8 From the date of operations of these guidelines, all new issuance of securities should indicate that dividend will be paid into bank account of the investor electronically.



### **3.0 Rights and Responsibilities of the Parties**

#### **(A) Registrars**

The Registrar shall have the following responsibilities:

- (i) Select the bank or service provider for electronic payments.
- (ii) Provide the basic infrastructure requirements for electronic payments.
- (iii) Define and adhere to appropriate operational processes for initiating electronic payments.
- (iv) Obtain correct details of investors and validate them.
- (v) Provide credit advice to investors for all dividend and interest payments.

#### **(B) Rights and Responsibilities of CSCS Plc.**

- (i) Financial Market Infrastructure that provides Central Securities Depository (CSD) and sub-registry services for Nigerian Capital markets
- (ii) Provides electronic clearing and settlement services for all eligible Securities on the principle of Delivery versus Payment (DVP)
- (iii) Define requirements for Settlements Banks
- (iv) Advice Settlement Banks and NIBSS/CBN on dealing member firms financial obligations arising from Securities transactions.

#### **(C) Rights and Responsibilities of Custodians**

- (i) Custodians as clearing members are to ensure that bank accounts are funded on or before Settlement day.
- (ii) To ensure asset separation between Custodians and clients at all times
- (iii) Periodic account update to the investors.

#### **(D) Rights and Responsibilities of PDMMS**

- (i) Dealers to fund their settlement account on behalf of their clients on/before settlement day
- (ii) Dealers to transmit proceed to investors latest by the next day after settlement.

## **(E) Rights and Responsibilities of Investors**

An Investor has the following responsibilities:

- (i) Maintain an account with a DMB.
- (ii) Confirm and provide proper details of the account to the Registrar and Stockbrokers.
- (iii) Alert the Registrar or Stockbroker if payment is not effected after being advised.

## **(F) Rights and Responsibilities of Banks**

Banks have the following responsibilities:

- (i) Process electronic payments instructions in accordance with the terms defined by the payments system.
- (ii) Provide correct account numbers and bank sort codes to beneficiaries.
- (iii) Provide timely information on customer enquiries.

## **(G) Payment Service Providers**

The Payment Service Providers have responsibility for the payment initiation platform and the electronic reporting system used by the Registrars and Stockbrokers. Their responsibilities include:

- (i) Provision of a secure electronic platform for payment initiation and online transaction reporting.
- (ii) Implementation and support of the electronic payment platform.
- (iii) Validation of received payment instructions to ensure that transactions are from the purported originator and have not been manipulated.
- (iv) Processing of received instructions and onward transmission to the DMBs for Registrars and Stockbrokers using appropriate ACH Infrastructure with capabilities for bulk processing.

- (v) The capability to generate and send Credit Advice to funds beneficiary via email and/or SMS when payments are made provided the Registrars and Stockbrokers pays for the service.

#### **(H) Payment Infrastructure Service Providers**

The Payment Infrastructure Service providers include all organizations that provide switching and settlement services for electronic payments. Their responsibilities include:

- (i) Provision of electronic payments and clearing services in accordance with the Nigeria Bankers Clearing House Rules and other appropriate guidelines issued by the CBN.

#### **(I) Central Bank of Nigeria and Securities & Exchange Commission**

The CBN and SEC shall have the following responsibilities:

- (i) Provide oversight functions on securities settlement systems.
- (ii) Ensure adequate laws are put in place to safeguard the interest of all parties.
- (iii) Apply appropriate sanctions in the event of default.
- (iv) Review and amend the Guidelines from time to time.

### **4.0 Tariff/Charges**

- (i) **Payment by the Registrars and Stockbrokers:** Charges for transactions should be agreed between the Registrars/Stockbrokers their banks, and Service Providers and included in their SLA
- (ii) **Payment to Investors:** There shall be no charges to investors on e-payment of dividend/interest.

### **5.0 Dispute Resolutions**

Dispute Resolution mechanism in respect of securities settlement shall be governed by the relevant rules issued by CBN, SEC, The Exchanges, CIS and IST's directives.

## 6.0 Sanctions

Regulatory bodies shall review and apply appropriate sanctions in the event of default and/or infractions in securities settlement.

## 7.0 Glossary Of Terms

**Clearing/Settlement Agent:** This refers to a corporate body responsible for processing/determining net positions of institutions arising from a trading/clearing session and or further processing the settlements into the account of affected institutions.

**Delivery Versus Payment:** A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs

**The Exchanges:** Any trading platform owned by a self-regulatory organization and approved by the SEC.

**Settlement System:** Infrastructure for settlement of trade (Gross or net)

**Net Settlement Positions:** Value of total sales less total purchase for each institution

**Settlement Banks:** Banks that receive net position on behalf of the owner institutions

**Net NTB:** Total NTB purchased less total NTB sales

### List of Abbreviations

ACH: Automated Clearing House

ASCE: Abuja Securities and Commodity Exchange

ATS: Automated Trading System

CBN: Central Bank of Nigeria

CBN RTGS: Central Bank of Nigeria Real-Time Gross Settlement System

CDF: Certificate Deposit Form

CHN: Clearing House Number

CIS: Chartered Institute of Stockbrokers  
CSCS: Central Securities Clearing System Plc.  
Day T: Transaction Day  
DMBs: Deposit Money Banks  
DVP: Delivery versus Payment  
FGN: Federal Government of Nigeria  
FMBN: Federal Mortgage Bank of Nigeria  
IST: Investment & Securities Tribunal  
MMD: Money Market Dealers  
NCX: Nigeria Commodity Exchange  
NIBSS: Nigeria Inter-Bank Settlement System  
NTB: Nigeria Treasury Bills  
NSE: The Nigerian Stock Exchange  
OBB: Open Buy Back  
OTC: Over-The-Counter  
PDMMs: Primary Dealers and Market Makers  
Repo: Repurchase  
RTGS: Real-Time Gross Settlement System  
SEC: Securities & Exchange Commission  
WDAS: Wholesale Dutch Auction System  
SLA: Service Level Agreement  
SRO: Self-Regulatory Organization  
NASD: National Association of Securities Dealers  
FMDQ: Financial Markets Dealers Quotation

**APPENDIX I: FORM OF COLLECTING INVESTORS' ACCOUNT DETAILS**

Dear Sirs,

The details of my/our bank account are as follows:-

<b>DMB</b> :	
<b>Address of Bank Branch:</b>	
<b>Account Name:</b>	
<b>Account Number:</b>	
<b>Sort Code:</b>	
<b>Phone Number</b>	
<b>Email Address</b>	

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
[NAME OF INVESTOR]

In the presence of:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_