



NEW RULES AND SUNDRY AMENDMENTS TO THE RULES AND REGULATIONS OF THE COMMISSION

NEW RULES

a. RULES ON SPECIALIZED FUNDS/SCHEMES

Definition of Terms

“Eligible Foreign Jurisdiction (EFJ)” means IOSCO Ordinary Member countries

“Eligible securities/assets” mean:

- (a) Investments of a CIS as prescribed under the ISA;
- (b) Other securities registerable by the Commission that do not qualify as eligible investments of a CIS as prescribed by the ISA;
- (c) Negotiable securities and money market instruments which are tradable and transferable in regulated markets and Exchange of eligible foreign jurisdiction market;
- (d) Assets of an eligible Foreign jurisdiction market other than in (b) which are deemed liquid and whose selection is supported by a FMDDRR;
- (e) Unquoted Securities traded on a SEC registered ‘Over the Counter’ Exchange;
- (f) Derivatives, Commodities and Other assets as may be prescribed or approved by the Commission from time to time.

“Foreign Market Due Diligence Review Report (FMDDRR)” means a Foreign Market Due Diligence Review to be undertaken by the Fund Manager to the Fund or proposed Fund showing the following:

- a. Risk and return profile of the market in which the security(ies) to be invested in is listed or traded;
- b. Risk and return profile and other relevant information on the Issuer of the security (ies) to be invested in;
- c. Risk management strategy of the Fund Manager with regards to the planned investments

“Qualified Investors” mean: Qualified Institutional Investors, and High Net Worth Investors, as defined under these Rules and Regulations



1. General Provisions

A Specialized Fund/Scheme shall:

- a) be subject to registration and authorization by the Commission;
- b) be offered only to qualified investors;
- c) be subject to the reporting requirements of a Unit Trust Scheme;
- d) have a minimum subscription level of not less than N5 million per investor;
- e) not be publicly listed but may be traded on an Over the Counter (OTC) Exchange

2. Qualifying Investor Requirement

Investor participation in an authorized Specialized Fund shall be restricted strictly to qualified investors.

3. Investment Activities

- i. Investment activities of a Specialized Fund/Scheme shall be in assets that align with the investment objective of the Fund/Scheme as stated in the Fund/Scheme's constituent documents.
- ii. A Specialized Fund may invest in eligible assets as prescribed under these Rules.
- iii. Assets shall be subject to limits of allocation specified in the Fund's constituent documents. The Fund Manager shall undertake continuous due diligence and risk assessment of such asset on a half-yearly basis;

4. Borrowing Limit

Where borrowing is provided for, the borrowing limit or gearing ratio shall be disclosed in the Fund/Scheme's constituent documents.

5. Exposure Limits in Derivative Transactions

Permissible exposure limits to counterparties in an OTC derivative transaction shall be clearly set and stated as a percentage of the Fund/Scheme's gross asset value in the Fund/Scheme's constituent documents.



6. Risk Diversification

In undertaking asset selection and allocation, the Fund Manager shall ensure appropriate risk diversification giving regards to the investment objective of the Fund/Scheme. The following limitations shall also apply:

- a) Asset – Not more than 20% of the Fund’s total asset value shall be invested in the securities of the same issuer within a group;
- b) Jurisdiction – Not more than 20% of the Fund’s total value shall be invested in Eligible Foreign Jurisdictions.

7. Duties and Responsibilities of the Fund Manager of a Specialized Fund/Scheme

- i. **Investors Due Diligence:** The Fund Manager shall, through the administration of a signed questionnaire or profile, ensure that only qualified investors participate in the Scheme; therefore, it shall conduct due diligence on the eligibility of interested investors, failing which it shall bear any liability that may arise from failure to undertake such due diligence.
- ii. **Valuation methodology and Frequency of valuation:** The Fund Manager shall exercise due diligence in ensuring that the Fund’s underlying assets are valued in line with internationally acceptable standards relevant to the specific types of assets.

The basis and methodology of such valuation shall be disclosed in the Fund/Scheme’s constituent documents and subsequently in valuation reports and pricing of the Fund/Scheme’s net asset value and unit/ share price as well the Fund’s periodic reports to investors.

8. Disclosure Requirements

The constituent documents of a Specialized Fund/Scheme shall include the following minimum information:

- i. **Investment Policy and Objective of the Fund:**

This shall include the Fund/Scheme’s investment strategy and asset class, justification for investment/ asset choice and any other information that may be required by the Commission.

- ii. **Responsibility statements to the effect that:**



- a. Where there occurs an error in valuation of the Fund/Scheme's asset resulting in a mispricing of the Fund's/Scheme's unit price, the Fund Manager will take immediate action to remedy the error; or where the Custodian observes such error in valuation and pricing of the Fund/Scheme's unit price, it shall immediately bring this to the attention of the Fund Manager who shall immediately rectify same;
- b. Where a mispricing of units of the Fund/Scheme occurs, in the case of an over-valuation, the Fund Manager shall retribute out of the Fund/Scheme assets existing investors and former investors whose holdings were part of the Fund/Scheme at the time the mispricing occurred by the margin of the difference arising from the mispricing including any accrued interests computed at the weighted average policy rate of the jurisdiction where the assets are invested;

iii. **Other Disclosure Requirements**

- a. Names, profile and experience of the fund manager's principal officers and management team;
- b. tax implications;
- c. Material risks of investing in the Fund;
- d. Arrangements for the safe custody of assets;
- e. Statement of minimum investment required of an investor;
- f. policy on distribution of income and or reinvestment;
- g. relevant fees and charges connected with investment in the Fund;
- h. prohibition from investing in the fund manager's, its affiliates' and the fund sponsor's instruments;
- i. relevant investment restrictions (if any)
- j. provision for admission of new and withdrawal of existing investors;
- k. management participation in the Fund;
- l. the Fund's policy with respect to mispricing;
- m. Duration of the Fund;
- n. Risk Management and controls;
- o. Duties, responsibilities and liabilities of Trustee (if constituted as Trust);
- p. Duties, responsibilities and liabilities of Fund Manager/Management or Governing Board (if constituted as Investment Trust Company
- q. Duties, responsibilities and liabilities of Other Parties to the Scheme/Fund;
- r. Provision for meetings and voting quorum;
- s. Provision for termination or winding up of Scheme;
- t. Dispute resolution mechanism;
- u. A Foreign Market Due Diligence Review Report (where applicable)
- v. Provision for Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) controls;



- w. Any other material information as may be required by the Commission from time to time

9. Applicable fees

- i. Application fee - N50,000
 - ii. Filing fee - N20,000
 - iii. Authorization fee - 0.075% of the Fund size for Fund up to N10 billion.
- 0.050% of the Fund size for Fund over N10 billion

b. APPLICATION FORM FOR REGISTRATION OF EXCHANGE TRADED FUNDS (ETF)

FORM SEC 6A6

(To be completed in duplicate)

SECURITIES AND EXCHANGE COMMISSION (SEC) NIGERIA



APPLICATION FORM FOR REGISTRATION OF EXCHANGE TRADED FUNDS (ETF) IN ACCORDANCE WITH THE PROVISIONS OF THE INVESTMENTS AND SECURITIES ACT, NO 29, OF 2007 AND THE SEC RULES AND REGULATIONS

Instructions for Completion

- i. All questions must be answered in the spaces provided. No space should be blank. Where a question is not applicable please indicate N/A in the space provided.
- ii. Information supplied/entered in the application form must be valid and correct as at a date not earlier than 30 days preceding the date of this application.
- iii. In the event of any material change to the information provided in this application prior to the authorization of the Offer/Scheme, the applicant shall notify the Commission of such changes immediately.
- iv. Any false/misleading information found to have been supplied herein shall attract appropriate sanction/penalty in line with the requirement of the SEC Rules and Regulations.



Date of submission of application	
Reference/Processing Application No	
Cheque No.	

1. APPLICANT/SPONSOR

- i) Name:.....
a. (Exact name as in certificate of incorporation)
- ii) Address:.....
(Principal Office Address)
- iii) Telephone Number:.....Fax:.....E-mail:.....
- iv) Investment Objective:.....

2. THE SCHEME/FUND

- a) i) Name of proposed Fund:.....
- ii) Proposed Date of Commencement:.....
- iii) Benchmark Index/Underlying Asset.....
- iv) Market sector of Index.....
- b) Investment Strategy of the Fund *(if tracking an index include method of tracking i.e. full replication or sampling)*:.....
.....
- c) i) Proposed size/value (Aggregate Number of Units being offered):.....
- ii) Initial Issue/offer price per unit.....



- iii) Basis for determination of the issue/offer price:.....
- iv) Basis for determination of the IOPV:.....
- d) Creation and redemption of units
 - i) Method of subscription (i.e. cash or *in specie* or both):.....
 - ii) Units required for delivery of one (1) Basket weighting:.....
 - iii) Baskets required for delivery of one (1) Block:.....
 - iv) Details of redemption provisions:
.....
- e)
 - i) State voting rights of unit holders (if any):.....
 - ii) Disclose any special rights under the proposed scheme:.....
- f)
 - i) Frequency of Income Distribution:.....
 - ii) State provision for closure of register of unitholders
.....
.....
 - (iv) Briefly explain proposals for periodically accounting to unitholders
.....
.....
- g) (i) Composition of the Index/Underlying Asset

S/N	Index constituents/Underlying Asset Description	Weighting
-----	---	-----------



1.		
2.		
3.		
4.		
5.		
6.		

(ii) Date of composition.....

(iii) Frequency of re-balancing index (where applicable).....

2)(1) FOREIGN ETFs

i) Name of Exchange of primary listing

.....

ii) Is the primary Exchange a member of the World Federation of Exchanges?.....

iii) Country of primary registration or approval

iv) Nature of periodic filings made to Home Regulator/Primary Exchange:.....

.....

3. THE FUND MANAGER

a) (i) Name & Address

.....

.....

(ii) Date & Place of Incorporation

.....

(iii) Date of commencement of business.....



iv) Telephone Number:.....Fax:.....E-mail:.....

(v) Authorized Capital:

(vi) Issued and Paid up Capital:

(vii) Disclose relevant expertise on ETF or access to such expertise to issue ETF's.....
.....
.....
.....
.....

b) Shareholding of Fund Manager:

i) Name(s) of Substantial Shareholders (5% & above):

	Name of Company	No. of shares	Amount	%
NIGERIAN				
FOREIGN				

ii) Give the names of beneficial owners of nominee shareholding of at least 5% of the ordinary share capital apart from pension funds. *(State the percentage in each case)*

.....
.....
.....

c) Details of funds and portfolio being managed:



Name of Fund	Year Commenced	Privately managed funds/Aggregate Value			Institutional Investors/Aggregate Value		
		Quoted Equities	Money Markets	Others	Quoted Equities	Money Markets	Others

(Attach schedule to accommodate additional clients if need be)

d) State specific lines of business (where appropriate) and percentage contribution to turnover from each line

No.	Description	% contribution to	
		Turnover	Net Profit
1			
2			
3			
4			
5			

e) Furnish details of affiliates as follows:

Name of Affiliate/Address/Nature of Affiliation

.....

.....

.....

.....

f) Management and Principal Officers



Name	Educational Qualification	Position Held	Address	Share Qualification	% Shareholding in relation to total share capital	No. of Units of Scheme held	Remarks

g) Management Fees to be charged on the Fund and basis

h) Provide evidence of membership of a Fund Managers' Association.....

i) Have you ever been found guilty of any misdemeanor or breach of the rules of any such association?

j) Give full details of contingent liabilities (if any):

k) (i) Is any Investment advisory contract subsisting between your company and any other: YES/NO

(ii) If yes, give details about such Investment Advisers as below:

Name & Address	Pertinent Fund	Basis of Remuneration
.....
.....
.....



l) Summary of Five Year audited financial account (including management account where the latest is more than 9 months)

4. TRUSTEE

a) (i) Name and Address of Trustee:

.....

(ii) Date & Place of Incorporation

(iii) Telephone Number:.....Fax:.....E-mail:.....

(iv) Authorized Capital:.....

(v) Issued and Paid up Capital:

b) Disclose any special relationship with Fund Manager

.....

c) Management of Trustee Company:

Name	Educationa l Qualificati on	Positio n Held	Addres s	Share Qualificati on	% Shareholdi ng in relation to total share capital	No. of Units of Schem e held	Remar ks



--	--	--	--	--	--	--	--

d) Particulars of Trusteeship of other Collective Investment Schemes within the last five (5) years:

Title of Scheme	Year Commenced	Current (Yes/No)	Reason(s) for Cessation

e) Have you ever been sued for or found guilty of breach of Trust under the laws of Nigeria or any other relevant jurisdiction?

Yes No

If yes, please give details:

.....

f) Remunerations/Charges of Trustee and basis:

.....

g) Five Year financial Summary of Trustee (including management account as at immediate quarter preceding submission of application)

5. AUTHORIZED DEALER (Attach appendix if more than one)

a) i. Name of proposed Authorized Dealer:

.....



ii. Date and Place of Incorporation:.....

iii. Address:
.....

iv. Telephone Number: Fax:E-mail:.....

v. Relationship with fund manager:

vi. Relationship with Trustee:

b) Remuneration/charge of Authorized Dealer and basis.....

SIGNATURES AND CERTIFICATION

Pursuant to the requirements of the Investments and Securities Act, No 29, 2007 and the Rules and Regulations made thereunder, the Applicant/Sponsor has duly caused this application form to be signed on its behalf by its duly authorised signatory.

.....

Applicant/Sponsor

Date:.....Signature:.....

.....

(Full Name and Title)

I certify that to the best of my knowledge and belief the information set forth in this application form is true, complete and correct.

.....

Date

.....

Signature



.....
(Full Name and Title)

SWORN to at theCourt Registry this day of

BEFORE ME

.....
COMMISSIONER FOR OATHS

OR

NOTARY PUBLIC

c. APPLICATION FORM FOR REGISTRATION OF ADDITIONAL UNITS/SECURITIES OF COLLECTIVE INVESTMENT SCHEMES

FORM SEC 6A7
(To be completed in duplicate)

SECURITIES AND EXCHANGE COMMISSION (SEC) NIGERIA



APPLICATION FORM FOR REGISTRATION OF ADDITIONAL UNITS/SECURITIES OF COLLECTIVE INVESTMENT SCHEMES IN ACCORDANCE WITH THE PROVISIONS OF THE INVESTMENTS AND SECURITIES ACT, NO 29, OF 2007 AND THE SEC RULES AND REGULATIONS

Instructions for Completion



SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA

- i. All questions must be answered in the spaces provided. No space should be left blank. Where a question is not applicable please indicate N/A in the space provided.
- ii. Information supplied/entered in the application form must be valid and correct as at a date not earlier than 30 days preceding the date of this application.
- iii. In the event of any material change to the information provided in this Form prior to the registration the Units/Securities, the applicant shall notify the Commission of such changes immediately.
- iv. Any false/misleading information found to have been supplied herein shall attract appropriate sanction/penalty in line with the SEC Rules and Regulations.

Date of submission of application	
Reference/Processing Application No	
Cheque No.	

1. APPLICANT

- i) Name:.....
(Exact name as in certificate of incorporation)
- ii) Address:.....
(Principal Office Address)
- iii) Telephone Number:.....Fax:.....E-mail:.....

2. THE SCHEME/FUND

- a)
 - i) Name of Fund:.....
 - ii) Date of registration/authorization by the Commission:
 - iii) Date of Commencement:.....
- b)
 - i) Total Number of Units registered at inception :
 - ii) Total Number of existing registered Units:.....
 - iii) Number of Additional Units to be registered:.....
.....
 - iv) Price per Unit:.....
 - v) Basis of determination of the price:.....
 - vi) Total number of existing Unit holders:



3. THE FUND MANAGER

- a) Name & Address of fund manager:.....
.....
- b) Disclose any change in the management of the Fund since the last registration of Units:
.....
.....

4. TRUSTEE

- a) Name & Address of Trustee:.....
.....
- b) Disclose any change of Trustee since the last registration of Units:
.....

5. REGISTRATION FEE

- a) Total registration fee payable:

SIGNATURES AND CERTIFICATION

Pursuant to the requirements of the Investments and Securities Act, NO 29, 2007 and the Rules and Regulations made thereunder, the Applicant/Fund manager has duly caused this application form to be signed on its behalf by the duly authorised signatory.

.....

Applicant

Date:..... Signature:.....

.....

(Full Name and Title)

I certify that to the best of my knowledge and belief the information set forth in this application form is true, complete and correct.

.....



Date

Signature

.....
(Full Name and Title)

SWORN to at theCourt Registry this day of

BEFORE ME

.....
COMMISSIONER FOR OATHS

OR

NOTARY PUBLIC

d. REGISTRATION REQUIREMENTS FOR COMMODITY BROKERS

1. DEFINITION OF TERMS

Commodity Brokers – These are entities registered by the Commission to trade commodities on spot commodities exchange market on behalf of clients only.

Commodity Dealers – These are entities registered by the Commission to trade commodities on spot commodities exchange market for proprietary accounts only.

Commodity Broker Dealers - These are entities registered by the Commission to trade commodities on spot commodities exchange market for proprietary accounts and on behalf of clients.

2. PAYMENTS/FEES

- (1) Evidence of Payment of Filing/Application Fee- N10,000 (Ten Thousand Naira)
- (2) Evidence of Payment of Processing/Registration Fee- N25,000 (Twenty-Five Thousand Naira)
- (3) Evidence of Payment of Sponsored Individual Fee- N10,000 (Ten Thousand Naira)
- (4) Duly Executed Form SEC 3- For the Company



3. FORMS

- (1) Form SEC 2 and 2D - Sponsored Individual and Compliance Officer (To be completed in duplicates); (Note that every applicant is to have at least one sponsored individual who shall be the Compliance Officer and who shall be responsible for monitoring compliance with the ISA 2007, Rules and Regulations, notifications, guidelines, instructions, etc. issued by the Commission or the Federal Government)
- (2) Form SEC 2 and 2D - Directors of the company (To be completed in duplicates)

4. MINIMUM PAID-UP CAPITAL AND FIDELITY INSURANCE BOND

- (1) Evidence of required minimum paid up capital - Commodity Broker -N3,000,000 (Three Million Naira); Commodity Dealer N3,000,000 (Three Million Naira); Commodity Broker/Dealer – N10,000,000 (Ten Million Naira)
- (2) Current Fidelity Insurance Bond covering at least 20% of the minimum paid-up capital as stipulated by the Commission's Rules and Regulations.

5. SPONSORED INDIVIDUALS AND DIRECTORS

- (1) Minimum of two Sponsored Individuals, one of who shall be the Compliance Officer
- (2) Where the Managing Director of the Company is not a Sponsored Individual, he shall complete SEC form 2D as required by the Commission's Rules and Regulations.
- (3) Full postal addresses of immediate previous employers, bankers (with current account number) and nominated referees of sponsored individuals
- (4) Detailed curriculum vitae of Sponsored Individuals and Directors (all gap in employment and educational history should be explained)
- (5) Copies of credentials of sponsored individuals, originals will be required for sighting by the SEC
- (5) Police clearance report for each sponsored individual. Each sponsored individual is to report at the SEC office in Abuja or the Lagos Zonal office with two recent passport photographs to commence the process
- (6) Copy of means of identification of the directors and the Sponsored Individuals of the company (International passport, tax or utility payment documents)



6. APPLICANT COMPANY

- (1) A copy of license from an Exchange
- (2) Profile of the company, where applicable, shall include among others brief history of the company, organizational and shareholding structure, principal officers as well as details of past and current activities
- (3) The name(s) and address(es) of the company's subsidiaries/associated companies, type of business and percentage holding, if any
- (4) Evidence of payment of shares allotted to the shareholders, where applicable
- (5) Commodities owned by such broker or dealer or in which the broker or dealer has an interest shall be listed in a separate schedule and valued at the current market price
- (6) Operational manual or organizational chart of the company, if any
- (7) Business plan;
- (7) Bank statement of accounts

e. RULES ON CAPITAL MARKET HOLDING COMPANIES (CMHC)

1. DEFINITION OF TERMS

Capital Market Group means a corporate structure where a parent-subsidary relationship exists with the parent and subsidiaries carrying out capital market operations strictly.

A **Capital Market Holding Company (CMHC)**

A Capital Market Holding Company is a company whose principal object is for the purpose of making and managing (for its own account) equity investment in two or more companies, being its subsidiaries, one or more of which must perform registered capital market functions, and others performing other financial services as may be approved by the Commission from time to time.

The Commission or SEC "means the Securities and Exchange Commission, Nigeria".

Control in respect of an entity means

- (1) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:
 - (a) cast or control the casting of more than 50% of the maximum number of votes that might be cast at a general meeting of such entity;
 - (b) appoint or remove all, or the majority of the directors or other equivalent officers of such entity; or



- (c) give directions with respect to the operating and financial policies of such entity with which the directors or other equivalent officers of such entity are obliged to comply; or
- (2) the holding beneficially of more than 50% of the issued share capital of such entity (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital);
- (3) The holding of more than 50 per cent of the voting shares of the subsidiary or in instances where the holding is less than 50 percent, an entity has control of an investee when it has;
 - (a) power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
 - (b) exposure, or rights, to variable returns from its involvement with the investee; and
 - (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Holding Company (HoldCo) means a company whose principal object is making and managing (for its own account) equity investment in two or more companies, being its subsidiaries.

Mono-line Capital Market Operator means an entity that performs only one registered capital market function.

Permissible Financial Institutions are institutions carrying out banking, insurance, pension, mortgage and any other financial services as may be approved by the Commission from time to time.

Related Party: a party is related to an entity if the party:

- (1) Directly, or indirectly through one or more intermediaries,
 - (a) controls, is controlled by, or is under common control with such entity which may include its holding company, its subsidiaries and the subsidiaries of its Holding company
 - (b) Has an interest in the entity that gives it significant influence over the entity; or
 - (c) Has joint control over the entity.
- (2) Is an associate of the entity. An associate is an unconsolidated party in which an entity has a significant influence or which has significant influence over that entity.



Significant influence over a party is the power to participate in the financial and operating policy decisions of the party but is less than control over those policies.

- (3) And the entity are members of the same joint venture;
- (4) Is a member of the key management personnel of the entity or its Holding Company;
- (5) Is a close member of the family of any individual referred to in (a) or (d);
- (6) Is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) or
- (7) Is a post-employment benefit plan for the benefit of employees of the entity, or any entity that is a related party of the entity.

Related Party Transaction is a transfer of resources, service or obligations between related parties, regardless of whether a price is charged.

2. PRE –REGISTRATION CONDITIONS

A proposed CMHC shall prior to incorporation submit the following information to the Commission:

- (1) The names, number and profiles of proposed directors/promoters of the companies within the group;
- (2) Proposed group structure with detailed explanatory notes;
- (3) Proposed Memorandum and Articles of Association of the CMHC;
- (4) Capital Structure of each company within the group and;
- (5) Any other document/information that the SEC may require.

Upon clearance, the Commission shall grant a No Objection to the incorporation of the proposed CMHC.

3. REGISTRATION REQUIREMENTS

Upon incorporation, a CMHC shall file an application for registration on relevant SEC forms as contained in the Rules and Regulations and shall be accompanied by:

- (1) a minimum of two sets of completed Form S.E.C. 2 to be filed by the sponsored individuals;
- (2) a copy of Certificate of Incorporation certified by the Corporate Affairs Commission (C.A.C.); where a copy not certified is filed, the applicant shall present the original copy for sighting by an authorized officer of the Commission;
- (3) a copy of Memorandum and Articles of Association certified by the Corporate Affairs Commission;
- (4) a copy of CAC Form containing particulars of directors certified by the Corporate Affairs Commission;



- (5) copy of latest audited accounts or audited statement of affairs for companies in operation for less than one (1) year;
- (6) profile of the company covering among others, a brief history of the company organizational structure, shareholding structure, principal officers, etc. (see Form S.E.C. 3 for details);
- (7) evidence that the CMHC holds an aggregate of more than 50% of the voting shares of each company within the group or otherwise controls each company within the group.
- (8) sworn undertaking to keep proper records and render returns;
- (9) evidence that the primary focus of the entire group is on Capital Market activities.
- (10) evidence of at least two subsidiaries.
- (11) evidence of meeting the prescribed minimum capital requirement
- (12) a written and duly executed undertaking by the CMHC that the group will comply with the minimum capital requirements for the volume and nature of its business at all times.
- (13) copy of corporate governance charter for the CMHC.
- (14) In the event the proposed CMHC is a foreign entity, a “no objection” letter from the relevant regulatory body in the entity’s home country should be filed in addition to the requirements under this section.
- (15) Any other document/information that the SEC may require.

4. STRUCTURE OF THE CMHC

- (1) A CMHC shall be a non-operating company that controls subsidiaries that primarily operate in the Capital Market and other subsidiaries operating in the financial system
- (2) Where a CMHC acquires a 100 percent interest in another company, that company shall be referred to as a wholly owned subsidiary of the CHMC.
- (3) A CMHC may elect to acquire less than 100 percent ownership, but own at least 51% and also have control over the other entity
- (4) A CMHC may acquire any permissible financial institution, subject to the prior approval of the SEC.
- (5) Where the target company is outside the supervisory purview of the SEC, the prior No Objection of the relevant regulator is required.
- (6) A CMHC that elects to change to mono-line capital market operator shall seek the prior approval of the SEC. Such CMHC shall submit along with its request for approval the following:
 - (a) Annual audited financial statements for the immediate past three years under the arrangement/structure it seeks to discontinue;
 - (b) Divestment plan from subsidiaries; and



SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA

- (c) Any other requirements as may be determined by the SEC from time to time.
- (7) A CMHC shall operate under the approved structure for a minimum of 3 years in order to ensure stability before it can be permitted to apply to the Commission for a change in structure.

Provided that the Commission may consider and approve a change in structure before the expiration of the 3-year time limit, where the Commission is satisfied with the reasons for the change.

- (8) The SEC may direct a CMHC to divest from a financial market subsidiary where in the opinion of the SEC, the subsidiary is being run in a manner detrimental to the interest of investors and/or other stakeholders.
- (9) A CMHC shall have only one hierarchy (parent and subsidiaries)
- (10) A Capital market operator with equity interests in at least one (1) non-capital market subsidiary in addition to its capital market function(s) shall be required to adopt the CMHC Structure.
- (11) A Capital Market Group shall not be required to adopt a CMHC structure but may opt to do so due to business considerations. However, each company within the group shall carry out its registered capital market function(s) as a separate entity.
- (12) "Funds and assets of clients within the Capital Market Holding Group shall not be co-mingled with the proprietary funds and assets of the holding company or other firms within the group".

5. CORPORATE GOVERNANCE

- (1) A CMHC shall comply with the provisions of the Securities and Exchange Commission's Code of Corporate Governance for Public Companies and any other Code in force.
- (2) The board of a CMHC shall include at least an individual who is knowledgeable in the practice and operations of each line of business of the company subsidiaries.
- (3) Appointment to the board and management positions shall be subject to the Commission's approval.
- (4) Regulations on sponsored individuals currently applicable to Capital Market Operators shall also apply to CMHCs.
- (5) A public CMHC shall publish its financial statements on its website.

6. OWNERSHIP AND CONTROL

- (1) Changes in ownership and control of a CMHC shall be subject to prior approval of the SEC.
- (2) The SEC shall be notified of any direct or indirect shareholding of 5% and above by a single shareholder.
- (3) Subsidiaries of a CMHC are prohibited from acquiring shares in the CMHC.



- (4) Subsidiaries are prohibited from acquiring shares of other subsidiaries of their parent holding company.
- (5) Only those regulated entities in which the CMHC has control will be held as subsidiaries.
- (6) A CMHC shall cease to be a CMHC where it loses its Controlling Interest for a period that exceeds six (6) consecutive months in all the capital market subsidiaries in the group or has only two subsidiaries and loses its controlling interest in either of the subsidiaries.
- (7) Where a CMHC loses controlling interest in any subsidiary but still qualifies as a CMHC, it shall notify the Commission within 5 working days, after which that subsidiary shall cease to count as a subsidiary of the CMHC.

7. PERMISSIBLE ACTIVITIES

- (1) The activities of a CMHC shall be restricted to the holding of equities in its subsidiaries
- (2) A CMHC may, with the prior written notice to the SEC, provide shared services to its subsidiaries within the group in respect of:
 - (a) Human Resources;
 - (b) Risk Management;
 - (c) Information and Communication Technology;
 - (d) Facilities (Office Accommodation including Electricity, Security and Cleaning Services in that accommodation);
 - (e) Financial Controls;
 - (f) Legal and Corporate Services;
 - (g) Procurement;
 - (h) Research and Business Development;
 - (i) Strategy; and
 - (j) Any other services as may be approved by the SEC from time to time.
- (3) Shared services shall be provided at arm's length and transactions in respect of such services shall require the consent of the Board of Directors of the subsidiaries.

8. NON-PERMISSIBLE ACTIVITIES

- (1) A CMHC is prohibited from undertaking the following activities:
 - (a) Investment in non-financial entities.



- (b) Establishment, divestment and closure of subsidiaries without the prior written approval of the SEC and/or any other relevant regulatory or supervisory authority, as may be applicable.
- (c) Deriving or receiving income from sources other than as listed herein:
 - (i) Dividend Income;
 - (ii) Income from shared services, where applicable;
 - (iii) Interest earned from investments
 - (iv) Divestment from subsidiaries/associates; and
 - (v) Any other source as may be approved by the SEC.

(2) **Internal Management of Subsidiaries**

A CMHC shall not:

- (a) Arrogate to itself any of the powers or functions of the Board of Directors, or internal management responsibilities and obligations of any of its subsidiaries or associates of any such subsidiary;
- (b) Interfere in the day-to-day activities of the subsidiaries except as approved under permissible shared services;
- (c) Be involved in credit administration and approval process of its subsidiaries;
- (d) Require its subsidiaries (including any organ, agent, employee or director thereof) to take directives or act on the instructions of the CMHC in its decision making process, or in relation to the conduct of its business in any way whatsoever.
- (e) Have any of its employees, while in the employment of the CMHC, work for any subsidiary, except employees engaged in shared services arrangements;
- (f) Engage the services of any employee of any of its subsidiaries;
- (g) Enter into any technical or management service contract with any of its subsidiaries except as stipulated in the permissible activities above;
- (h) Purchase/dispose assets in excess of 10% of the subsidiary's shareholders' funds unimpaired by losses from/to its subsidiaries without the prior written approval of the SEC and any other relevant regulator.

(3) **Intra-Group Transactions**

A CMHC shall not:

- (a) Engage in any transaction or maintain any business relationship with any of its subsidiaries, except such transaction is conducted at arm's length;
- (b) Obtain a loan based on the guarantee of its subsidiary/associate of the subsidiary, except where the loan is secured by dividend (declared) income or Service Level Agreements by the CMHC for services to its subsidiaries.



- (4) Credit by a subsidiary to its CMHC would be regarded as a return of capital and deducted from the capital of the subsidiary in computing the CMHC's minimum capital requirements.
- (5) Any lending to subsidiaries within the CMHC (group would attract 100% risk weight (if it is fully secured) otherwise it would be deducted from the capital of the subsidiary when computing capital adequacy ratio.

(6) Change in ownership structure

Except with the prior written approval of the SEC, no CMHC or any director, shareholder, agent or instrumentality of such an entity or its shareholders shall enter into an agreement or arrangement which results in:

- (a) A change in the control of the CMHC
- (b) The amalgamation or merger of the CMHC with any other person; or its takeover by any other person;
- (c) The reconstruction of the CMHC; or
- (d) The employment of a management agent or the management of the CMHC or the transfer of its business to any such agent.

(7) Appointment of Directors and Top Management

A CMHC shall not appoint:

- (a) As a director, any person who at the relevant time is a director of any of its subsidiaries/associates of the subsidiary, except with the prior written approval of the SEC. Where such an appointment is approved, the aggregate number of directors from the subsidiaries and associates of the subsidiary at any point in time shall not exceed 30% of the membership of the Board of Directors of the CMHC.
- (b) Any member of its board to serve on the board of its subsidiaries, except with the prior written approval of the SEC. Where such an appointment is approved, the number of directors from the CMHC at any point in time shall not exceed 30% of the membership of the Board of Directors of each of the subsidiaries.
- (c) A person who has served as a director (executive or non-executive) for the maximum allowable period as stipulated by the relevant industry regulator into any subsidiary, or an associate of such a subsidiary until after a minimum period of three (3) years after the expiration of the tenure of such director, and vice versa.

(8) Intra-Group Transfer of Assets

Intra-group transfer of assets shall be carried out in a transparent manner and at arm's length.



9. PRUDENTIAL REGULATIONS OF CAPITAL MARKET HOLDING COMPANIES

(1) **Minimum paid-up capital and capital reserves**

The minimum capital requirement for a CMHC shall be the sum of the aggregate minimum capital of all its subsidiaries.

(2) **Shareholders' Funds**

The CMHC shall maintain the minimum capital requirement at all times by ensuring that the shareholders' funds do not fall short of the prescribed minimum capital.

(3) **Percentage of Holdings and Nature of Subsidiaries**

The CMHC shall specify in its quarterly reports to the Commission, the nature and percentage of holdings in subsidiaries.

(4) **Sources of Revenue**

Major sources of revenue of each subsidiary shall be from core and related capital market and financial services activities including:

- (a) Commissions, fees and other incomes from permissible financial services
- (b) Dividend Income;
- (c) Income from shared services, where applicable;
- (d) Interest earned from investments
- (e) Divestment from subsidiaries/associates; and
- (f) Any other source as may be approved by the SEC.

(5) **Acquisition of Subsidiaries**

In the acquisition of subsidiaries, the SEC shall be satisfied that the CMHC has adequate capital resources to carry out the acquisition.

(6) **Intra-group Exposure**

No member of the group shall directly or indirectly lend or borrow and or have an aggregate contingent liability from or to any member of the group above 10% of its shareholders' fund unimpaired by losses.

(7) **Limits on related party borrowing and lending**

(a) A related party shall not borrow from or lend more than 0.1% of the CMHC's shareholders' funds from/to the subsidiaries within the group except the loan is from a banking subsidiary or is a margin facility as defined in the Commission's Rules and Regulations.

(b) The maximum loan to all related parties shall not exceed 1% of the CMHC's shareholders funds.



- (8) **CMHC limit on Contingent Liabilities**
A CMHC's total exposure on contingent liabilities on behalf of its subsidiaries shall not exceed 20% of its shareholders' funds.
- (9) **General Service Agreement**
Where facilities are shared by members of the group, a comprehensive Service Sharing Agreement shall be drawn and submitted to the SEC for approval. This shall be disclosed in the quarterly returns and annual audited accounts.
- (10) **Internal Control**
Each subsidiary shall have a Compliance Officer who reports to both the Board of the subsidiary and the Board of the CMHC.

10. OBLIGATIONS

(1) Reporting Obligations

A CMHC shall file with the Commission:

- (a) Any organizational or structural changes.
- (b) The reports listed below:
 - (i) Quarterly and half yearly returns by Public Companies
 - (ii) Continuous reporting of material changes in activities by public companies
 - (iii) Quarterly reports/returns by Capital Market Operators
 - (iv) Annual reports and accounts by Capital Market Operators
 - (v) Monthly returns from Capital Market Operators
 - (vi) Miscellaneous returns by Capital Market Operators.

(2) Other Obligations

A CMHC shall:

- (a) Establish and maintain policies and procedures, records, systems reasonably designed to conduct, monitor and manage the CMHC's investments and the risks associated with those investments and make these policies, procedures and records available to the Commission upon request.
- (b) Establish an independent comprehensive and effective risk management Rules, accompanied by a robust system of internal controls and effective internal audit and compliance functions.
- (c) Carry out periodic group wide stress tests and scenario analysis for major sources of risks.



11. SUPERVISION

- (1) A CMHC shall be supervised by the Commission while its subsidiaries shall be supervised by relevant financial sector regulators where applicable.
- (2) Where applicable, the consolidated supervision of the CMHC shall be done according to the guidelines for Consolidated Supervision of Financial Institutions in Nigeria and guidelines issued by the Financial Services Regulatory Coordinating Committee (FSRCC) or any other relevant body.
- (3) A Capital Market Holding Company shall be required to render statutory returns to the Commission in line with Rule 10 (1) (b) and as may be required by the Commission from time to time.
- (4) The Commission shall conduct inspections on a CMHC and its subsidiaries as may be required from time to time.

12. SANCTIONS

Appropriate sanctions and penalties as prescribed under these Rules and Regulations shall apply for any violation of these rules.

SUNDRY AMENDMENTS

a. AMENDMENT TO RULES ON BOOK BUILDING AND FUND/PORTFOLIO MANAGEMENT OPERATIONS

1. Existing Rule on Fund/Portfolio Management Operations

a. Existing definition of Retail Investor

Retail Investor means an individual not otherwise classified as 'High Net worth Investor (HNI) or as 'Qualified Institutional Investor (QII) who invests with a registered Capital Market Operator and:

- i. has on aggregate (inclusive of tangible and intangible assets) a net worth not exceeding N100 million Naira;
- ii. does not possess the requisite knowledge, expertise/skill experience and sophistication for investment management;
- iii. has low to moderate risk tolerance threshold;
- iv. undertakes the investment for his or her own beneficial account, or on behalf of a minor as parent or guardian.

Amendment to definition of Retail Investor



Retail Investor means an individual not otherwise classified as High Net-worth Investor (HNI) or as Qualified Institutional Investor (QII) who invests with a registered capital market investor and:

- i. Has on aggregate a net-worth (excluding personal homes, automobiles and furniture) of less than N100 million Naira.

b. Existing definition of High Net Worth Investor

High Net Worth Investor means an individual whose aggregate net worth of investment assets exceeds 100 million Naira, in addition to:

- i. possession of evident capacity, expertise and sophistication to undertake high risk investment activities; or

Definition of High net worth Investor

High **Net-worth Investor** means an individual with a net-worth of at least N100 million, excluding personal homes, automobiles and furniture.

2. Amendment to the Rule on Bookbuilding

Deletion of existing Rule 321- Definition of High Net-worth Investor

~~**High Net Worth Investor** means an individual with net worth of at least 300 million Naira, excluding automobiles, homes and furniture~~

b. AMENDMENT TO THE CODE OF CORPORATE GOVERNANCE

Existing Provision of the Code sought to be amended

Clause 1.3(d)

Whenever SEC determines that a company or entity required to comply with or observe the principles or provisions of this code is in breach, the SEC shall notify the company or entity concerned specifying the areas of non-compliance or non-observance and the specific action or actions needed to remedy the non- compliance or non-observance;

Amendment: Deletion of Clause 1.3(d) as follows:

~~Whenever SEC determines that a company or entity required to comply with or observe the principles or provisions of this code is in breach, the SEC shall notify the company or~~



~~entity concerned specifying the areas of non-compliance or non-observance and the specific action or actions needed to remedy the non-compliance or non-observance;~~

c. AMENDMENT TO RULE 5(3)- REGULATIONS FOR DEMUTUALIZATION OF SECURITIES EXCHANGES IN NIGERIA

Provision and definition of the phrase “stakeholder group” in the “**Definition of Terms**” section of the Rule as follows:

“**Stakeholder group**” means any group that has a claim, stake or interest in the Securities Exchange

Addition of the phrase “subject to Rule 7” at the beginning of Rule 5(3) as follows:

Existing Rule 5(3)

The aggregate equity interests of members of any specific stakeholder group in the demutualized Securities Exchange shall not exceed 40% or as may be prescribed by the Commission from time to time

Amendment to Rule 5(3)

Subject to the provisions of Rule 7, the aggregate equity interests of members of any specific stakeholder group in the demutualized Securities Exchange shall not exceed 40% or as may be prescribed by the Commission from time to time.

d. AMENDMENT TO RULE 14(1) - RULES ON APPOINTMENT OF COMPLIANCE OFFICER

Name/citation of the Rule - Appointment of Compliance Officer Rule 14(1)

Full text of Existing Rule 14(1)

- (1) Every market operator shall appoint a Compliance Officer who shall possess requisite knowledge of relevant capital market regulations and who shall be responsible for monitoring and ensuring compliance with the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Commission or the Federal Government;



Amendment

- (1) Every market operator **except a sub-broker** shall appoint a Compliance Officer who shall possess requisite knowledge of relevant capital market regulations and who shall be responsible for monitoring and ensuring compliance with the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Commission or the Federal Government. **The Compliance Officer of the Sponsoring firm shall provide oversight on sub-brokers registered under the sponsor.**

- e. **DELETION OF RULE 19(5) - NEED FOR ALL STOCKBROKERS TO BE SPONSORED FOR REGISTRATION**

Full Text of Existing Rule 19(5)

- (5) Every stockbroker employed in an institution involved in capital market activities shall be sponsored for registration by that institution.

Amendment (Deletion of Rule 19(5))

~~Every stockbroker employed in an institution involved in capital market activities shall be sponsored for registration by that institution.~~

- f. **AMENDMENT TO RULES 19 AND 35- REGISTRATION STATUS OF SPONSORED INDIVIDUALS**

Full Text of existing Rule 19 (4) (ii)

The registration of a registered sponsored individual who resigns or whose appointment is terminated and has not transferred his registration to another registered Capital Market Operator within a period of twelve (12) months, shall cease to exist.

Amendment by Deletion of Rule 19 (4) (ii)

~~The registration of a registered sponsored individual who resigns or whose appointment is terminated and has not transferred his registration to another registered Capital Market Operator within a period of twelve (12) months, shall cease to exist.~~



Full Text of Existing Rule 35 (4) (b) (iii)

Where a sponsored individual resigns his employment in the sponsoring company, he may transfer his registration to another registered corporate body by complying with the following:

- (iii) file completed Form SEC 2 as a sponsored individual with the present employer:

Provided that where the individual has been out of capital market operations for three (3) years or more, he shall file a fresh application for registration with the Commission.

Amendment to the proviso in Rule 35 (4) (b) (iii):

Provided that where the individual has been out of capital market operations for ~~three (3)~~ **two (2)** years or more, he shall file a fresh application for registration with the Commission.

Amendment (Creation of sub-rule iv):

(iv) The registration of a sponsored individual who has changed employment to another capital market operator, but whose sponsorship has not been transferred to the current capital market employer within a period of three (3) years shall cease to exist. He shall file a fresh application for registration with the Commission.

g. AMENDMENT TO RULE 40(5): RULE ON EARNINGS FORECAST

Full Text of Existing Rule

Public companies may notify the relevant securities exchanges as soon as it is known that the forecast will not be realized and the reasons for the non-realization shall be stated.

Amendment

Public quoted companies shall notify the relevant securities exchanges as soon as it is known that the forecast will not be realized and the reasons for the non-realization shall be stated.

h. AMENDMENT TO RULE 41(4): PUBLICATION OF INTERIM FINANCIAL STATEMENT



Full Text of Existing Rule:

All public companies shall publish their "signed" quarterly balance sheet, income statement and cash flow statements in at least one (1) national daily newspaper. However, the accounting policies, notes and other relevant information shall be posted on the company's website which address shall be disclosed in the newspaper publication. The publication shall be signed by the officers mentioned in (3) above.

Amendment:

All public companies shall publish their "signed" quarterly balance sheet, income statement and cash flow statements in at least one (1) national daily newspaper. Reference shall be made to the detailed financial statement on the company's website which address shall be disclosed in the newspaper.

However, the accounting policies, notes and other relevant information to the quarterly report shall be posted on the company's website which address shall be disclosed in the newspaper publication. The publication on the company's website shall not be later than thirty (30) days from the end of each quarter and shall be on their website up to the end of the succeeding quarter. The publication shall be signed by the officers mentioned in (3) above.

Provided that public unlisted companies, companies listed on the alternative securities market or such other platforms approved by the Commission, may publish their "signed" quarterly statement of financial position, income statement and cash flow statements, accounting policies, notes and other relevant information on the company's website and the relevant exchange's website/platform where applicable.

i. AMENDMENT TO RULE 45 (PART C): REGISTRABLE FUNCTIONS

Full text of Existing Rule:

(1) The following are capital market operators:

- a. issuing houses/merchant bankers;
- b. underwriters;
- c. broker/dealers;
- d. sub-brokers;
- e. receiving bankers;
- f. registrars;
- g. trustees;



- h. investment advisers (corporate and individuals);
- i. fund/portfolio managers;
- j. rating agencies;
- k. market makers
- l. custodian
- m. any other function the Commission may determine from time to time.

Amendment:

Creation of new item "m" under Rule 45 to read as follows:

(1) The following are Capital Market Operators:

- a. Issuing Houses/Merchant Bankers;
- b. Underwriters;
- c. Broker/Dealers;
- d. Sub-brokers;
- e. Receiving Bankers;
- f. Registrars;
- g. Trustees;
- h. Investment Advisers (corporate and individuals);
- i. Fund/Portfolio Managers;
- j. Rating agencies;
- k. Market Makers
- l. Custodian
- m. Nominee
- n. Any other function the Commission may determine from time to time.

j. AMENDMENT TO RULE 51(1)- ON REPORTS TO BE FILED

Full text of Existing Rule

Every market operator whether active or not shall file with the Commission reports listed in schedule IV of these rules and regulations: -

Amendment

Every market operator whether active or not shall file with the Commission reports listed in schedule IV of these rules and regulations **except a sub-broker who shall file all its returns through its sponsoring broker.**



k. AMENDMENT TO RULE 51- REPORTS TO BE FILED/SCHEDULE II (PENALTIES)

Full Text of Existing Rule 51 (1) (b)&(c):

- (b) Annual accounts certified by an auditor and prepared on a calendar or fiscal year basis, shall be filed not later than six (6) months after the end of the accounting year.
- (c) Where a market operator fails to file quarterly returns twice in a year and nine (9) months after the annual accounts becomes due, the market operator shall be referred for further enforcement action.

Provided that an operator who was not active during a reporting period shall file a nil return supported by affidavit.

Amendment:

- (b) Annual accounts certified by an auditor and prepared on a calendar or fiscal year basis, shall be filed not later than ~~six (6)~~ three (3) months after the end of the accounting year.
- (c) Where a market operator fails to file quarterly returns twice in a year and ~~nine (9)~~ six (6) months after the annual account becomes due, the market operator shall be sanctioned ~~referred for further enforcement action~~.

Provided that an operator who was not active during a reporting period shall file a nil return supported by affidavit.

AMENDMENT TO SCHEDULE II (PENALTIES/FINES)

Full Text of Existing Rule:

- Late filing of quarterly/yearly returns (N2,000.00 per day for the period of default)
- Non-filing of quarterly/yearly returns (N5,000.00 per day for the period of default)

Amendment:

- ~~Late filing of quarterly/yearly returns (N2,000.00 per day for the period of default)~~
- ~~Non-filing of quarterly/yearly returns (N5,000.00 per day for the period of default)~~
- Late/ non-filing of quarterly/yearly returns (N5,000.00 per day for the period of default)



I. AMENDMENT TO RULE 57- NET CAPITAL REQUIREMENT

Full text of Existing Rule: Net Capital Requirement

- (1) No broker or dealer shall permit his aggregate indebtedness to exceed 10 times its net capital.
- (2) Net capital shall be computed as specified below:
 - (a) Determine equity by subtracting the broker-dealer’s liabilities from its assets (broker-dealer assets include cash; money owed by customers and other broker-dealers; securities held in proprietary trading and investment accounts; and fixed assets like buildings, furniture and equipment. Broker-dealer liabilities include money owed to customers and other broker-dealers, bank loans, debt securities issued by the broker-dealer, or funds loaned to it by the parent company);
 - (b) Add back certain subordinated liabilities to equity, subject to certain conditions;
 - (c) Deduct illiquid assets, such as the value of fixed assets from equity;
 - (d) Deduct unsecured receivables.

Amendment: Net (Liquid) Capital Requirement

- (1) No broker or dealer shall permit its aggregate indebtedness to exceed 10 times its net liquid capital.
- (2) Net (liquid) capital shall be computed as specified below:
 - (a) Determine net worth by subtracting the broker/dealer’s total liabilities from its total assets;
 - (b) Deduct illiquid assets such as the value of non-current assets from net worth
 - (c) Deduct Haircut Charge

m. AMENDMENT TO RULE 58: DETERMINATION OF NET (LIQUID) CAPITAL

Full Text of Existing Rule:

(1) Every stock broker (broker/dealer) registered with the Commission shall compute and report in all statutory report/filing its Net (liquid) Capital applying the following procedures:

- (a) Total asset
- Less: total liabilities
- Net-Worth
- Add: Reserves/earning



Subordinated loans

Net capital before adjustments

(b) Less: Fixed assets

Prepaid expenses

Exchange membership fee

Unquoted investments

Unsecured receivable (loan)

Net capital before provisions

(c) Less: Provisions (Haircuts)

Net (liquid) capital

(d) Less: Required minimum capital base

Within threshold/in excess/shortfall

(2) **Definition of Terms**

Networth means the difference obtained when the liabilities are subtracted from the assets of a stockbroking firm.

Prepaid Expense means payment in lieu of service or goods delivery. It is an asset to the company not immediately recoverable.

Unquoted Investment means investment in securities that are not listed on the stock exchange. The value of such investment cannot be immediately determined.

Unsecured receivable (loan) means a debit balance on the account of clients that are not covered by any collateral, but by the assets acquired by the stockbroking firm under a margin loan agreement or any other form of unsecured loan agreement.

Subordinated loan means the lending of cash or collateral to a broker/dealer for use in the company. The lender has last claim in the assets in case of financial difficulties. This type of loan is usually obtained from the company's promoters or its directors.



Provisions (Hair cut) means an industry term that is applied to the value of an asset. Depending on its liquidity, the value is reduced by what amount could be expected if the asset had to be liquidated in a hurry.

Amendment:

(1) Every broker/dealer registered with the Commission shall compute and report in all statutory reports/filings its Net (liquid) Capital applying the following procedures:

(a)

	Total Assets	XXXX
Less:	<u>Total Liabilities</u>	<u>XXXX</u>
	<u>Net-Worth</u>	<u>XXXXX</u>
Less:	Non Currents Assets	XXXX
	Intangible Assets	XXXX
	Statutory Deposits	XXXX
	<u>Other Assets</u>	<u>XXXX</u>
	<u>Net Liquid Capital Before Haircut</u>	<u>XXXXX</u>
Less:	*Total Risk Weight (Haircut Charge)	XXXX
	Net Liquid Capital	XXXXX
Less:	Threshold (10% Aggregate Indebtedness)	XXXX
	<u>Excess/(Shortfall) Net Liquid Capital</u>	XXXXX

(b) Broker/Dealers shall render monthly report on their Net Capital Position in a specified form to the Nigerian Stock Exchange and the Commission.



(c) Any Broker/Dealer with a shortfall in net liquid capital shall be suspended from trading.

*Computation of Risk Weight (Haircut) shall be the summation of the following:

10% of Listed Equities (Nigerian);
15% of Nigerian Depository receipt NDR;
15% of Listed Preference Stock (Nigerian)
50% of Foreign Listed Securities/Euro Bonds;
100% of Unlisted Foreign Securities
10% of Foreign Currency balance /position not hedged
10% of Mutual Funds;
0% of Federal Government Bonds;
0% of Treasury Bills;
0% of Supra-national Bonds;
15% of Sub-National Bonds;
100% of Unlisted Equities (Nigerian) not traded in SEC registered OTC market;
20% of Unlisted Equities (Nigerian) traded in SEC registered OTC markets;
20% of Investment Grade Commercial Papers
20% of Bankers Acceptance and Certificate of Deposits
80% of Unsecured loans, receivables and advances to clients
15% of Margin loans and securities lending



100% of Non-investment grade Corporate Bonds
20% Corporate Bonds (Investment grade)
35% of Derivatives (Options and Futures)
10% of Exchange Traded Funds and REITS
10% Concentration charge on any instrument above 35% of Portfolio

Definition of Terms

Aggregate Indebtedness means total liabilities of a Broker-Dealer (including off-balance sheet items) arising in connection with any transaction whatsoever which among others include money borrowed, money payable against securities held, clients and non-clients free credit balances, lawsuit damages / penalties, guarantees and contingencies where occurrence of loss is probable.

Hair cut means a percentage by which investment in certain assets would be discounted to provide for market volatility and uncertainties.

Net liquid capital means an organization's net worth, which is calculated by subtracting its total liabilities from its total assets, including deduction of illiquid assets and haircut. It is the ability of an organization to meet its financial obligations to customers and creditors.

Networth means the difference obtained when the total liabilities are subtracted from the total assets of a stockbroking firm.

OTC (Over the Counter) Market means SEC registered decentralized market, without a central physical location where market participants trade unlisted securities through agreed electronic trading systems and in compliance with established market rules.

Other Assets refer to any other asset not specifically mentioned in the calculation above and is illiquid.

Quoted Investment means investment in securities that are listed on a recognized stock exchange.

Threshold means 10% of aggregate indebtedness. SROs shall establish early warning Net (liquid) Capital levels which is at 8 times the threshold.

n. **AMENDMENT TO RULE 74- RELATIONSHIP BETWEEN SUB-BROKERS AND BROKER/DEALERS**



Full text of Existing Rule 74

Relationship between Sub-Brokers and Broker/Dealers

Amendment: Re-naming of the Heading to read:

Obligations of a Sub-Broker

o. AMENDMENT TO RULE 107(4)- UNCLAIMED RETURN MONIES

Full text of existing Rule 107(4)

All unclaimed return monies shall after six (6) months be transferred by the registrar into the National Investors' Protection Fund established pursuant to the Act.

Amendment

All unclaimed return monies **with accrued interest** shall after six (6) months be transferred by the registrar into the National Investors' Protection Fund established pursuant to the Act.

p. AMENDMENT TO RULE 125- PROHIBITION OF ASSIGNMENT

Full text of Existing Rule:

A custodian of securities shall not assign or delegate its functions as a custodian of securities to any other person unless such person is a registered custodian or depository of securities and has the written consent of the client to do so.

Amendment:

A custodian of securities shall not assign or delegate its functions as a custodian of securities to any other person unless such person is a nominee, registered custodian or depository of securities and has the written consent of the client to do so.



q. CREATION OF A NEW RULE UNDER PART C13- RIGHT OF INVESTOR TO APPOINT CUSTODIAN

Creation of New Rule 126:

Investors shall reserve the right to appoint custodians that will hold their accounts, assets, securities and other investment instruments.

r. AMENDMENT TO RULE 132- USE OF NOMINEES

Full text of Existing Rule:

A custodian who uses nominee(s) to hold its clients' investments shall disclose to the Commission in advance the names of the nominee(s) it intends to use and ensure that:

- (1) the nominee acts only in accordance with its clients' instructions;
- (2) each nominee is dedicated to the holding and to activities relating to the holding of investments;
- (3) it accepts responsibility in writing to its clients for any of the nominees used, to the same extent as for its own action; and
- (4) any report on compliance by the Custodian with rules and regulations relating to clients' assets cover the nominee(s) as well.

Amendment: Use of Nominee Company

~~A custodian who uses nominee(s) to hold its clients' investments shall disclose to the Commission in advance the names of the nominee(s) it intends to use and ensure that:~~

A custodian shall use nominee(s) to hold its clients' investments and disclose to the Commission in advance the names of the nominee(s) it intends to use and ensure that:

~~(4) — any report on compliance by the Custodian with rules and regulations relating to clients' assets cover the nominee(s) as well.~~

(4) the nominee company is registered with the Commission to carry out the functions of nominee before engaging it

(5) all clients' assets are transferred to the nominee(s) immediately



s. AMENDMENT TO RULE 279(3) (5) (ii): SHELF REGISTRATION

Full Text of the Existing Rule

A shelf Prospectus shall be effective for a period of three years from the date of its issue and shall be subject to renewal as may be approved by the Commission. Provided, that the Shelf Prospectus of sub-nationals shall be effective for an indefinite period until determined by the Commission.

Amendment

A shelf Prospectus shall be effective for a period of three years from the date of its issue and shall be subject to renewal as may be approved by the Commission. Provided, that the Shelf Prospectus of **supranational agencies** shall be effective for an indefinite period until determined by the Commission.

Renumbering of Rule 279(5)(ii)(2&3) as amended on December 6, 2013 to be known as Newly Created Rule 279 (3) (8) (c):

- (c). In the case of a shelf prospectus which is effective for an indefinite period:
- (i) Information in the Shelf Prospectus shall be updated prior to the issuance of any tranche/series.
 - (ii) The shelf prospectus shall be updated by the filing of an addendum to the Shelf Prospectus with the Commission.
 - (iii) The addendum may include an information statement and/or any other relevant information and shall be incorporated by reference in any tranche/series to be issued.

t. DELETION OF RULE 421- DEFINITION OF ACQUISITION (MERGERS)

Acquisition means the takeover by one company of sufficient shares or assets in another company to give the acquiring company control over that company.

u. AMENDMENT TO SCHEDULE I- REGISTRATION FEES, MINIMUM CAPITAL REQUIREMENTS, SECURITIES AND OTHERS

Amendment: Creation of Registration fee for Nominee

Registration fee of N500,000.00 and Minimum Capital of N1,000,000,000.00



v. AMENDMENT TO SCHEDULE II OF THE COMMISSION'S RULES AND REGULATIONS: INSERTION OF PENALTY FOR DIVERSION/MISAPPLICATION OF ISSUE PROCEEDS

Amendment: Addition to Schedule II

Diversion/misapplication of Issue proceeds –

Any Issuer in default shall be required to pay the ongoing Monetary Policy Rate +2% on the amount of proceeds diverted/misapplied.

Notwithstanding the above, the Issuer shall:

- i. Be suspended from accessing the capital market for such period as may be determined by the Commission;
- ii. Be liable to a public censure (publication of the Issuer's default on the Commission's website).

MADE AT ABUJA THIS 21st DAY OF AUGUST 2019

.....
MARY UDUK
Ag. Director-General

.....
ENO OTUNBA-PAYNE
Ag. Secretary to the Commission