



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

Sundry Amendments

1. Proposed Amendment of Rule 67- Rules on Sub-broker
2. Proposed Amendment to Rule 70: Records of Transactions with Clients
3. Proposed Amendment: creation of a new Rule 76 –Risk Management

Details of the proposals are as follows:

LEGEND:

- Additions are underlined
- Justifications are *italicized*
- Deletions are ~~struck through~~

1. PROPOSED AMENDMENT OF RULE 67- ON SUB-BROKER

Full Text of Existing Rule 67: Registration Requirements

1) Corporate Sub-Broker

An application for registration as corporate sub-broker shall be filed on Form SEC 3 as contained in schedule III to these rules and regulations and accompanied by –

- a) two (2) sets of completed Form SEC 2 to be filed by the sponsored individual;
- b) A copy of the certificate of incorporation certified by the Corporate Affairs Commission (CAC). Where a copy not certified is filed, the applicant shall present the original copy for sighting by an authorized officer of the Commission;
- c) a copy of the memorandum and articles of association certified by the Corporate Affairs Commission which among others shall include powers to act as a sub-broker;
- d) a copy of the CAC Form containing particulars of directors certified by the Corporate Affairs Commission;
- e) copy of latest audited accounts or audited statement of affairs for companies in operation for less than one year;
- f) profile of the company covering among others brief history of the company, organizational structure, shareholding structure, principal officers, etc;
- g) Fidelity bond representing 20% of paid-up capital;
- h) sworn undertaking to keep proper records and render returns;
- i) a copy of the agreement signed between the sponsoring broker/dealer firm and sub-broker;
- j) evidence of minimum paid-up capital of N1 million;



- k) Sworn undertaking to comply with the provisions of the Act and the rules and regulations as may be required from time to time by the Commission;
- l) A recommendation letter from the sponsoring broker/dealer firm;
- m) Evidence of compliance with rule 20(4);
- n) Any other information or document that may be required by the Commission from time to time.

(2) Individual Sub-Broker

a) An Application for registration as an individual sub-broker shall be filed on Form SEC 2 as provided in Schedule III of these rules and regulations and shall be accompanied by the following:

- (i) Certified copy of certificate of registration of business name (where applicable);
- (ii) Evidence of minimum net worth of N500,000;
- (iii) Sworn undertaking to comply with the provisions of the Act and the rules and regulations as may be required from time to time by the Commission;
- (iv) Evidence of compliance with Rule 20(4);
- (v) Sworn undertaking to keep proper records and render returns.

b) Rule 83(3) and (4) shall, with all necessary modifications, apply in case of denial or suspension of registration of a sub-broker.

Proposed Amendment: Creation of a new sub-section (3) as follows-

3. Sub-broker serving Multiple Brokers Through a Digital Platform

A sub-broker who has agreements with multiple brokers and utilizes digital platforms to serve clients and interact with sponsoring broker shall in addition to requirements in (1) above, submit the following:

- a. Evidence of minimum paid-up capital of N3 million;
- b. Copy of "principal agreement" with every sponsoring broker.
- c. Description of the Technology on which it's infrastructure is built.
- d. Certification that the Infrastructure is sufficient to perform the required function.
- e. Evidence of documented policies and procedures for managing technology risks.
- f. Electronic communication channel, through which all communications with clients would be made.



- g. Process of establishing the suitability of potential clients to utilize its infrastructure for transactions.
- h. Notice to potential client of the features, risks, responsibilities, obligations and liabilities associated with the use of its infrastructure.
- i. A sample attestation document that the client is fully aware of and understands the risks associated with service being offered, prior to execution of an order.
- j. Confirmation that it would not delegate its functions to another sub-broker without the written permission of the Commission
- k. Adequate KYC/KYD requirements
- l. Binding Legal Agreement with potential clients taking into contemplation the following amongst others:
 - i. the respective rights and liabilities of the parties
 - ii. provisions relating to the security (physical and IT security) of the infrastructure (user identity, passwords, authentication codes, etc.), to avoid unauthorized system access;
 - iii. limits that are expressed as a notional amount for each Customer above which the orders cannot be placed
 - iv. warranties, indemnities, charges and Customer/product specific conventions;
 - v. conditions (such as for entering orders, error trade policies, etc.) and restrictions such as the right to suspend the service, to reject or cancel orders, etc.
 - vi. a requirement to have knowledge of trading rules and applicable laws and regulations or a requirement to comply with these; and
 - vii. evidence that the customer of his/her personnel who manage the process are authorized, qualified and competent.

Justification: *These additional requirements further assess the fitness and propriety of the modified function by providing fuller information on how it works, available disclosures, protection of clients and consent of parties. It also addresses sufficiency of its KYC and on-boarding method, availability of complete information to enable clients make informed decisions & the extent of liability of the operator.*

2. PROPOSED AMENDMENT TO RULE 70

Full Text of Existing Rule 70: Records of Transactions with Clients

A sub-broker shall maintain proper and adequate records of transactions for and on behalf of each client. Such records shall include among others: -



- a) Duly executed mandate form;
- b) Deposit receipt for purchase of shares;
- c) Script receipt for certificate deposit;
- d) Clients' statement from any recognized and registered depository.

Proposed Amendment: Creation of additional sub-clauses as follows-

- e) Proof of execution of trade on behalf of a client;
- f) Money Transfer receipt confirmation;
- g) All communications with the client through the dedicated communication channel;
- h) All transactions carried out on its platform;
- i) All parties related to every transaction carried out on its platform.

Justification: Five additional requirements were added to ensure aspects of record keeping that pertain to digital platforms and multiple sponsors (brokers) are taken into consideration and included.

3. PROPOSED AMENDMENT: CREATION OF A NEW RULE 76 –RISK MANAGEMENT

All sub-brokers using digital platforms shall:

- a) have policies, procedures and controls in place to monitor and test their algorithms on a regular basis to ensure that they are performing as intended;
- b) put in place and implement internal policies and procedures to address technology risks, which may arise as they interact with their clients, transmit, store and process information electronically;
- c) have adequate cyber-security mechanisms against cyber-attacks;
- d) meet the SEC's Technology Risk Guidelines as may be determined from time to time;
- e) establish an Anti-Money laundering and countering the financing of terrorism mechanism, similar to those of other Capital Market Operators;
- f) put in place adequate operational and technical control systems to manage appropriate risks;
- g) establish capacity estimates for their automated order routing and execution, market information, and trade comparison systems;
- h) periodically conduct capacity stress tests to determine the behavior of its systems under a variety of simulated conditions;



- i) seek on a periodic basis the assessment of independent reviewers with regard to whether its infrastructures are performing adequately and whether they have adequate security;
- j) ensure that all electronic communication are digitally signed, encrypted, and tamper-proof;
- k) be responsible for keeping a backup of all Electronic Communication Network (ECN) in a soft and tamper-proof form.

Justification: *This is a new addition intended to provide appropriate risk measures to mitigate common technology risks and ensure the integrity of the automated processes used by the Sub-broker and their optimal performance.*