



## MAJOR AMENDMENTS TO THE RULES AND REGULATIONS OF THE COMMISSION

### **PREAMBLE**

### **MAJOR AMENDMENTS**

1. Amendment to Rule 67- Sub-broker
2. Amendment to Rule 70- Records of Transactions with Clients
3. Amendment- Creation of New Rule 76

The details of the amendment are as follows:

### 1. **AMENDMENT TO RULE 67- SUB- BROKER**

#### **Full Text of the Existing Rule**

#### **Registration requirements**

#### **Corporate Sub-Broker**

An application for registration as sub-broker shall be filed on Form SEC 2C as contained in schedule III to these rules and regulations and accompanied by-

- a) Form SEC 2 and 2D to be filed by the sponsored individual; (to be completed in duplicates) Form SEC 2 and 2D - Directors of the company (To be completed in duplicates);
- 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) copy of Return on allotment and particulars of Directors (Forms CO2 and CO7) 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;



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- i) a copy of the agreement signed between the sponsoring broker/dealer firm and sub-broker;
- j) evidence of minimum paid-up capital of N10 million;
- k) letter of recommendation and undertaking signed by the sponsoring Broker/Dealer on behalf of the Sub-Broker
- l) Evidence of compliance with rule 20(4);
- m) operational manual and organizational chart;
- 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) a copy of the agreement signed between the sponsoring broker/dealer firm and the individual sub-broker;
- (iv) 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;
- (v) Evidence of compliance with Rule 20(4);
- (vi) Sworn undertaking to keep proper records and render returns.

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

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

### **Definition**

“Sub-broker” means any person or entity not being a dealing member of an Exchange who acts on behalf of a sponsoring Broker/Dealer as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such sponsoring Broker/Dealer.



## “Sub-broker Serving Multiple Brokers Through a Digital Platform”

This is a sub-broker who utilizes a digital platform to serve clients and interact with the sponsoring broker or brokers.

### **(3) Sub-Broker/Sub-Broker Serving Multiple Brokers Through a Digital Platform**

An application for registration as Sub-Broker/Sub-Broker Serving Multiple Brokers through a Digital Platform shall comply with the following requirements: -

#### **A. Payment of fees**

- i. Evidence of Payment of Filing/Application Fee – N50,000 (Fifty Thousand Naira);
- ii. Evidence of Payment of Processing Fee – N200,000 (Two Hundred Thousand Naira);
- iii. Evidence of Payment of Registration Fee – N200,000 (Two Hundred Thousand Naira);
- iv. Evidence of Payment of Sponsored Individual Fee – N50,000 (Fifty Thousand Naira) for each sponsored individual.

#### **B. Forms**

- i. Duly Executed Form SEC 2C – For the Company
- ii. Form SEC 2 and 2D – Sponsored Individuals/Compliance Officer (To be completed in duplicates); (Note that every applicant is to have at least three sponsored individuals, one of whom should be a Compliance Officer 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)
- iii. Form SEC 2 and 2D – Directors of the Company (To be completed in duplicates).

#### **C. Minimum Paid-Up Capital and Fidelity Insurance Bond**

- i. Evidence of Required Minimum Paid up Capital – N10,000,000 (Ten Million Naira) (i.e. Bank balances, Fixed asset or Investment in quoted Securities);
- ii. Current Fidelity Insurance Bond covering at least 20% of the minimum paid-up capital as stipulated by the Commission’s Rules and Regulations.



## D. **Sponsored Individuals and Directors**

- i. Minimum of three sponsored Individuals;
- ii. Managing Director of the Company shall be among the sponsored individuals;
- iii. Full postal addresses of immediate previous employers, bankers (with Current Account number) and nominated referees of sponsored individuals;
- iv. Evidence of compliance with Rule 20 (4) on Qualifications of Sponsored Individuals and Compliance Officers;
- v. Detailed curriculum vitae of sponsored individuals and Directors which should include details of activities from Secondary School to date with dates; (all gaps in employment and educational history should be explained);
- vi. Copies of credentials of sponsored individuals shall be made available for sighting by the SEC;
- vii. Evidence from the Sponsored Individuals of having the minimum post-graduation experience to perform the function as stipulated by the Commission`s Rules and Regulations;
- viii. Police clearance report for each Sponsored Individual. Each Sponsored Individual shall report at the SEC head office in Abuja or the Lagos zonal office with two recent passport photographs to commence the process;
- ix. Copy of means of Identification of the Directors and the Sponsored Individuals of the Company (current International Passport, National Identity Card, current driver`s license issued by Federal Road Safety (FRSC), Inland Revenue Tax Clearance Certificate or recent utility payment documents voters card and BVN).

## E. **Applicant Company**

- i. Profile of the Company to include among others, brief history of the company, organizational and shareholding structure, principal officers as well as details of past and current activities;



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- ii. The name(s) and address (es) of the company's subsidiaries/associated companies, type of business and percentage holding;
- iii. Evidence of payment of shares allotted to the shareholders;
- iv. A copy of the agreement signed between the sponsoring broker/dealer firm and sub-broker;
- v. Sworn statement of guarantee from the sponsoring Broker/Dealer;
- vi. Securities owned by 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;
- vii. Operational manual or organizational chart of the company
- viii. Business plan;
- ix. Bank statement of accounts operated by the Company for the last 6 months.

## F. **Corporate Documents**

A copy each of the following, duly certified by the CAC:

- i. Certificate of Incorporation;
- ii. Memorandum and Articles of Association – this shall include the power to perform the specified function;
- iii. CAC Form(s) showing Statement of Share Capital, Return of Allotment, and Particulars of Directors;
- iv. Latest audited accounts or audited statement of affairs of the company. Note that the cash assets ratio shall be 60% liquid assets and 40% fixed and other assets;
- v. Sworn undertaking to keep proper records and render returns;
- vi. Sworn undertaking to abide by SEC Rules and Regulations and the Investments and Securities Act No.29 of 2007 by a director or the company secretary (to be notarized);
- vii. The Commission may require such other documents as it considers necessary for registration;
- viii. An application for registration shall only be considered as having been filed when all document (s)/information have been completed;



- ix. Every applicant Company/Firm shall be inspected in the course of processing an application for registration;
- x. A fair knowledge of the Rules and Regulations of the Commission and Investments & Securities Act No 29 of 2007 and the Capital Market is an essential prerequisite for registration.

Note: the original copy of the certificate shall be presented for sighting by an authorized officer of the SEC;

#### **4. Additional Registration Requirements for Sub-Broker Serving Multiple Brokers Through a Digital Platform**

A sub-broker shall have an agreement with multiple brokers.

In addition to compliance with the existing requirements in Rule 67, the Sub-broker shall have the following:

- a. Copy of "multiple principal agreement" with every sponsoring broker.
- b. Description of the Technology on which its infrastructure is built:
  - i. Structure
  - ii. Capability/limitation
  - iii. Security
  - iv. back-up & recovery process
- c. Certification that the Infrastructure is sufficient to perform the required function by an IT Service Provider registered by NITDA or other recognized Agency, and endorsed by a representative of the Association of Securities Exchanges
- d. Evidence of documented policies and procedures for managing technology risks.
- e. Electronic Communication channel through which all communications with clients would be made.



- f. Method of establishing the suitability of potential clients to utilize its infrastructure for transactions.
- g. Notice to potential clients of the features, risks, responsibilities, obligations and liabilities associated with the use of its infrastructure.
- h. Before execution of an order, proof that the Client is fully aware of and understands the risks associated with the service being offered.
- i. Confirmation that it would not delegate its functions to another sub-broker without the written permission of the Commission
- j. Adequate KYC requirements and processes
- k. Binding Legal Agreement with Potential clients taking into consideration 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; and
  - vii. A requirement that the Customer or his/her personnel who manage the process are authorized, qualified and competent.



## 2. **AMENDMENT TO RULE 70 – RECORDS OF TRANSACTIONS WITH CLIENTS**

### **Full Text of the Existing Rule**

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) Client's statement from any recognized and registered depository.

### **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



## Securities & Exchange Commission

### 3. AMENDMENT - CREATION OF A NEW RULE 76

#### 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) comply with the SEC's Technology Risk Guidelines as may be determined from time to time
- e) establish an Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) mechanism in enable compliance with the AML/CFT regulation for Capital Market Operators provided in these Rules.
- f) put in place adequate operational and technical control systems to manage appropriate risks
- g) periodically conduct capacity stress tests to determine the performance of its systems under a variety of simulated conditions;
- h) seek on a periodic basis the assessment of independent reviewer with regard to the adequacy of its infrastructure and security;
- i) ensure that all Electronic Communication (ECN) are digitally signed, encrypted, and secured
- j) be responsible for keeping a backup of all the ECN in a soft and secured form
- k) develop and implement a complaint management policy in compliance with the SEC Rules on Complaints Management, for ensuring that grievances/complaints raised by investors are addressed in an appropriate and timely manner.'

MADE AT ABUJA THIS <sup>22<sup>ND</sup></sup>..... DAY OF APRIL 2021

  
ENO OTUNBA-PAYNE

Ag. Secretary to the Commission

  
LAMIDO A. YUGUDA

Director-General