SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

RULE ON ROBO-ADVISORY SERVICES

The following Rules shall be applicable to all Capital Market Operators and persons (Individual & Corporate) offering or seeking to offer Digital (Robo) Advisory Services in the Nigerian Capital Market.

1. Definitions

For the purposes of these Rules:

"**Digital Advisory Services**" means the provision of investment advice using automated, algorithm-based tools which are client-facing, with little or no human adviser interaction in the advisory process;

"Fully Automated Robo Advisers" means Robo Advisers with no human adviser intervention in the entire advisory process);

"Rebalancing" means the process of periodic buying or selling of assets in a portfolio to maintain an original or desired level of asset allocation;

"Recommended Portfolio" means the list of securities recommended for purchase by the Robo Adviser;

"Revised Portfolio" means the art of changing the mix of securities in a portfolio to maximize returns and minimize risks;

"**Robo Adviser**" means a person who provides digital advisory services.

The terms used in these Rules shall, except where expressly defined in the Rules or the context otherwise requires, have the same meanings as defined in the Investments and Securities Act (ISA), 2007.

2. Registration Requirements

The provisions of the Commission's Rule on Corporate and Individual Advisers shall, with all necessary modifications, apply.

3. Additional Regulatory Requirements for Digital (Robo) Advisers

(i) A Robo Adviser is required to comply, on an ongoing basis, with all the applicable business conduct requirements set out in the Investment and Securities Act (ISA) and the Rules and Regulations, Notices and Guidelines issued pursuant to the ISA.

(ii) Where a Robo Adviser outsources the development and maintenance of their client-facing tools to a third party provider, the third party provider is not required to be registered by the Commission.

(iii) A Robo Adviser shall nonetheless subject the third party provider to appropriate due diligence processes in order to assess the risks associated with the outsourcing arrangement.

(iv) Where a Robo Adviser also provides portfolio/fund management services to the client and the client decides on an alternative investment decision contrary to the recommendation of the Robo Adviser, the Robo Adviser shall rely on the client's order and obtain a written decision/mandate from the client, highlighting in writing that the client is aware of their responsibility of the investment outcome and suitability of his/her investment decision.

(v) A Robo Adviser who wishes to perform the function of portfolio management shall apply to the Commission to be registered as a Fund/Portfolio Manager and shall comply with the applicable Rules and Regulations governing Fund/Portfolio Management Function.

4. Procedures for Providing Digital Advisory Services

(a) A digital investment advisory process occurs where:

i. A client answers a series of questions on his risk tolerance, investment objectives, investment time horizon, inputs an investment amount and;

ii. The input of the client are analyzed using algorithms, and a portfolio is recommended thereto.

5. Procedures for Revising and Rebalancing a Client's Investment Asset Allocation

(a) Where a client accepts the recommended portfolio, the Robo Adviser shall relay the client's orders directly to the relevant CMO for execution; except the Robo Adviser is licensed to execute transactions on behalf of their clients.

(b) Where a client amends or rejects the recommended portfolio and seeks to revise his/her investment asset allocation at inception or anytime during the investment management and advisory relationship, the Robo Adviser shall seek the express consent of the client, to accept the client's revised portfolio where the Robo Adviser is responsible for executing the transactions on behalf of the client

(c) Where the client seeks to periodically rebalance his/her portfolio, the Robo Adviser shall:

i. obtain a prior written authorization from the client to rebalance the portfolio (for non-discretionary portfolio);

ii. establish a rebalancing policy for the investment portfolio as agreed with the client containing:

1. the scope of rebalancing activities, including frequency and methodology of rebalancing;

2. fees payable and any other material terms and conditions associated with rebalancing;

3. period for providing advance notice prior to carrying out any rebalancing activities; and

(d) Robo Advisers shall ensure that:

i. The Principal Officers (e.g. Chief Executive Officer, Directors, and Management staff responsible for the design, operation and/or oversight of the digital advisory platform) have relevant experience in fund management and technology;

ii. Portfolios offered to clients are within the regulatory purview of the Commission;

iii. They undergo a post-authorization technology audit conducted by an independent third party at the end of each operational year and file a report with the Commission within three (3) months of the date of the close of the audit.

6. Governance and Supervision of Algorithms

a. To safeguard the client-facing tools which are primarily algorithm-driven, a Robo Adviser shall put in place adequate governance and supervisory arrangements to effectively mitigate against fault or bias in the algorithms.

b. The Board and Senior Management of the Robo Adviser shall be responsible for maintaining effective oversight and governance of the client- facing tool and ensure that there are sufficient resources to monitor and supervise the performance of algorithms.

c. The Robo Adviser should be adequately staffed with persons who have the competency and expertise to develop and review the methodology of the algorithms. Adequate training should also be provided to all staff who use the client-facing tool.

d. The Board and Senior Management of the Robo Adviser shall also put in place systems and processes to ensure a sound risk management culture and environment in its firm, as well as compliance with the relevant rules and regulations. These shall include:

i. approving the design and methodology development of the client-facing tool and ensuring its proper maintenance;

ii. approving the policies and procedures that apply to the systems and processes of the client-facing tool;

iii. maintaining oversight over the management of the client-facing tool, such as designating appropriate personnel to approve changes to the algorithms, and having security arrangements to identify and prevent unauthorized access to the algorithms;

iv. ensuring that the requirements set out in the Commission's Guidelines on Technology Risk Management are adhered to; and

v. maintaining proper documentation on the design and development of the algorithms.

e. While the Board and Senior Management may delegate the day-to-day operational oversight and governance of the client-facing tools to other personnel, they remain ultimately responsible and accountable for the proper development, monitoring and testing of the client-facing tools.

7. Developing the Client-facing Tool

In developing the client-facing tools, Robo Advisers shall:

a. ensure that the methodology of the algorithms behind the client-facing tool is sufficiently robust;

b. ensure that the tool collects all necessary information and sufficiently analyses same to make a suitable recommendation, including having proper mechanisms to identify and resolve contradictory or inconsistent responses from clients;

c. have controls in place (e.g. knock-out questions) to identify and eliminate clients who are unsuitable for investing;

d. perform sufficient testing, prior to the launch of the tool and when changes are made to the tool, to detect any error or bias in the algorithms and to consistently and reliably achieve the following key outcomes:

i. The algorithms correctly classify clients according to their risk profiles based on inputs provided by them. In particular, the Robo Adviser shall conduct back-testing using hypothetical inputs to ensure that the risk profiles generated by the algorithms are in line with its risk profiling methodology. The testing shall ensure that the algorithm scores and assigns risk profiles to clients correctly and consistently; and

ii. The algorithms produce the intended asset allocation and investment recommendation according to the Robo Adviser's risk profiling methodology.

8. Monitoring and Testing of the Client-facing Tool

a. Robo Advisers shall have policies, procedures and controls in place to monitor and test the algorithms on a regular basis to ensure that they are performing as intended. Robo Advisers shall at a minimum, have the following processes in place:

i. strict change management controls to manage changes to the algorithms whenever necessary;

ii. controls to detect any error or bias in the algorithms;

iii. controls to suspend the provision of advice if an error or bias within the algorithms is detected; and

iv. controls to provide clients with advanced notice of any scheduled maintenance or upgrade of its systems;

v. dedicated customer care help desks available during working hours on business days.

vi. compliance checks on the quality of advice provided by the client-facing tool. Such checks shall be conducted regularly and when there are changes to the algorithms. This shall include post-transaction sample testing, and shall be reviewed by an independent and qualified human adviser to ensure compliance with the requirements of the ISA and these Rules. The frequency of such review shall be commensurate with the size and complexity of the Robo Adviser's operations.

9. Technology Risk Management

a. Robo Advisers shall implement internal policies and procedures to address technology risks.

b. Robo Advisers shall meet the requirements set out in the Commission's Guidelines on Technology Risk Management (TRM), file quarterly report to the Commission on its Compliance and refer to the TRM Guidelines for industry best practice which they are expected to adopt and also file.

c. Robo Advisers shall perform a gap analysis against the requirements set out in the TRM Guidelines to ensure that all gaps are adequately mitigated prior to the launch of the client-facing tools and also when changes are made to these tools.

10. Compliance with the Anti-Money Laundering and Combating the Financing of Terrorism Act

a. Robo Advisers shall have in place adequate policies, procedures and controls to mitigate against money laundering and terrorism financing risks and comply with the Commission's Regulations on Anti-Money Laundering and Combating the Financing of Terrorism Act, 2013.

b. Robo Advisers shall take steps to address specific risks associated with Non-Face-To-

Face ("NFTF") business relations with a client. In this regard, Robo Advisers shall employ additional checks to mitigate the risk of impersonation when on-boarding clients through a NFTF means.

11. Disclosure of Material Information

a. Robo Advisers shall provide sufficient information to their clients to enable them make informed investment decisions. Disclosures shall be presented in plain English and in clear simple language.

12. Information on Algorithms

Robo Advisers shall at a minimum disclose in writing, the following to their clients:

a. assumptions, limitations and risks of the algorithms;

b. circumstances under which the Robo Advisers may override the algorithms or temporarily halt the robo advisory service; and

c. any material adjustments to the algorithms.

13. Conflicts of Interest

a. Robo Advisers shall comply with the existing disclosure requirements on conflicts of interest set out in the Code of Conduct for Employees of Capital Market Operators set out in these Rules and Regulations.

b. In particular, Robo Advisers shall disclose in writing to their clients, any actual or potential conflict of interest arising from any connection to or association with any product provider, including any material information or facts that may compromise their objectivity or independence.

c. In the context of their business model, Robo Advisers shall disclose situations where their algorithms are designed to direct clients to invest in products managed by their affiliates.

14. Risk Warning Statement for Overseas-listed Investment Products

a. Robo Advisers shall provide a risk warning statement to their clients at the point of account opening and when advising them on overseas-listed investment products.

b. When advising on overseas-listed investment products, Robo Advisers shall assess the merits of the products, as well as the client's investment objectives, financial situation and particular needs. They shall also ensure that they are not in violation of any applicable laws and regulations.

15. Suitability of Advice

a. In addition to all applicable modification to the Rule on Investment Advisers, Robo Advisers shall have a reasonable basis for recommending any investment product to a person who may reasonably be expected to rely on the recommendation.

b. To ensure that a recommendation takes into account a client's investment objectives, financial situation and particular needs, Robo Advisers shall take reasonable steps to collect and document the under-listed information:

i. the financial objectives of the client;

ii. the risk tolerance of the client;

iii. the employment status of the client;

iv. the financial situation of the client, including assets, liabilities, cash flow and income;

v. the source and amount of the client's regular income;

vi. the financial commitments of the client;

vii. the current investment portfolio of the client, including any life insurance policy;

viii. whether the amount to be invested is a substantial portion of the client's assets; and

ix. any recommendation made in respect of life policies, the number of dependants of the client and the extent and duration of the financial support required for each of the dependants.

16. Exemption to Collecting Full Information

a. A Fully automated Robo Adviser may exempt the collection of full information on a client's financial circumstances as prescribed under paragraphs (iii) to (ix) in 15 above, provided that all of the under-listed conditions are met:

i. the advice is fully-automated, with no human adviser intervention in the advisory process. Human interactions shall be limited to providing technical assistance such as, assisting clients on IT-related issues or clarifying with clients on their responses when inconsistencies are noted;

ii. there are in-built "knock-out" or threshold questions to effectively identify and eliminate unsuitable clients (e.g. clients who cannot afford to lose their principal investment sums);

iii. there are controls in place to identify and follow up on inconsistent responses provided by clients;

iv. a risk disclosure statement is provided to clients to alert them that the recommendation does not take into consideration their financial circumstances, at the point when the recommendations are provided to them; and

v. the advice is limited to instruments within the regulation of the Commission.

b. Robo Advisers relying on the Exemption above shall still take reasonable steps to collect information on the client's financial objectives and risk tolerance to satisfy themselves that the investment recommendation is suitable.

17. Assessing Clients' Knowledge and Experience

a. Robo Advisers shall assess if a client possesses the relevant knowledge and experience to invest in complex instruments through the Customer Knowledge Assessment ("CKA") or Customer Account Review ("CAR"). This applies, regardless of whether the client is self-directed or not.

b. Robo Advisers shall have the relevant framework to collect information from clients to enable them to conduct CAR or CKA assessments for product suitability. If self-directed clients are assessed not to have the knowledge and experience to invest in complex instruments, Robo Advisers shall appropriately warn them and/or offer to provide advice to them.

18. Advertisement

Robo Advisers shall comply with the advertisement requirements of the Rules and Regulations of the Commission.

MADE AT ABUJA THIS 30th DAY OF AUGUST 2021

ENO OTUNBA-PAYNE
Ag. Secretary to the Commission

LAMIDO A. YUGUDA
Director-General