



**RULEBOOK**

**OF THE**

**NIGERIAN STOCK EXCHANGE**

**DERIVATIVES MARKET**

EXPOSURE DRAFT

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## INTRODUCTION

The Nigerian Stock Exchange (“The Exchange” or “the NSE”) is a Regulated Securities Exchange under the Investments and Securities Act (ISA) of 2007 and is registered as such by the Securities and Exchange Commission (SEC).

The Exchange provides trading services in its capacity as a Regulated Exchange subject to the supervision of the SEC and the requirements of the SEC Rules and Regulations, 2013 made pursuant to the ISA.

This Derivatives Rulebook is made pursuant to the Memorandum and Articles of Association of the NSE and is subject to the provisions of the ISA, and the Rules and Regulations made thereunder.

References in this Derivatives Rulebook to “The Exchange” or the “NSE” shall be construed as references to The Nigerian Stock Exchange.

The Exchange has made arrangements for Clearing Services for Listed Products to be provided by a Designated Clearing House to act as a Central Counterparty Clearing House (CCP) for The Exchange’s Derivatives Markets. The Designated Clearing House will be an Authorised Clearing House in Nigeria registered by the Securities and Exchange Commission pursuant to the Investment Securities Act 2007.

This Derivatives Rulebook shall be binding upon Members in their relationship with The Exchange, as between themselves as Members, and as relates to the business which they conduct as Members of The Exchange with the general public.

This Derivatives Rulebook shall be binding on anyone who utilises the services of a Member for a derivatives transaction or who concludes a derivatives transaction with a Member in the course of the Member’s business or on whose behalf derivatives transactions are carried out.

Every transaction in derivatives entered into by a Member is entered into subject to the provisions of ISA and this Rulebook and it must be concluded on this specific condition.

The interpretation and enforcement of this Derivatives Rulebook vests in the National Council of The Exchange and any person and/or body to whom it delegates this power.

In the event that there is any conflict between this Derivatives Rulebook and any other statement whether written or oral made by The Exchange at any time, the terms of this Derivatives Rulebook shall prevail.

This Derivatives Rulebook shall be construed and interpreted so as to promote and maintain at all times the integrity of the market managed by The Exchange, as well as to ensure that

the business carried out by means of The Exchange's facilities is conducted in a fair, just and equitable manner and so as to afford proper protection to investors. Where a specific matter is not explicitly governed by these Derivatives Rules and Regulations, The Exchange shall take reasonable steps to regulate the conduct of business on its market in accordance with these principles.

Except where this Derivatives Rulebook express to the contrary, they shall be construed in accordance with, and governed by, the laws of the Federal Republic of Nigeria.

The Exchange shall not be liable to anyone in damages for anything done or omitted in the creation or discharge of this Derivatives Rulebook and accordingly no claim or recourse in respect of or in relation to any dealing in derivatives or any matter connected therewith shall lie against The Exchange.

No member of the National Council, member of the Committees of the National Council, director, official, other officer, employee or member of any investigative or Disciplinary Committee or body of The Exchange/acting for The Exchange is liable for any loss sustained by or damage caused to any person as a result of anything done or omitted to be done by them or The Exchange in the creation or discharge of this Rulebook or in respect of or in relation to or in connection with any dealing in derivatives.

No claim, suit, prosecution or other legal proceedings shall lie against The Exchange or any member of the National Council, member of the Committees of the National Council, director, official, other officer, employee or member of any investigative or Disciplinary Committee or body of The Exchange/acting for The Exchange in respect of anything which is done or intended to be done in pursuance of any order or other binding directive issued to The Exchange under any law or delegated legislation for the time being in force.

## CHAPTER 1

### DEFINITIONS

In this Derivatives Rulebook, unless the context otherwise requires the following terms shall have the meanings given below:

**Acceptance** has the meaning set out in Rule 4.1.2 of these Rules, and "**Accepted**" shall be interpreted accordingly;

**Account** means an Account held by a Clearing Member at the Designated Clearing House in which Futures and Options Trades may be accepted whether on own account or on behalf of a Client or by a Member for whom the Clearing Member acts as such, pursuant to the Designated Clearing House Rules;

**Act** means the Investments and Securities Act, 2007. This is also referred to as "**ISA**";

**Affiliate** means, in relation to any person, a subsidiary of that person or a holding company of that person or any other subsidiary of that holding company;

**Affected Trade** means each Trade to which a Defaulting Member is a party;

**Appeal** means the procedure referred to in Rules 8.5 and 8.6 of these Rules;

**Assignment** means the exercise by a Member of its right in terms of an Option Trade to buy or sell the Underlying of the Option Trade from or to a person holding a Short Position in the Option Trade;

**Authorised Person(s)** means an individual(s) at a Member appointed by the Member who are authorised to carry out instructions to The Exchange as detailed in The Exchange's Derivatives Authorised Persons Form;

**Back-Off Transaction** means a Trade formed between a Clearing Member and a Non-Clearing Member pursuant to Rule 4.1.3 of these Rules;

**Bilaterally Negotiated Trade** means a Trade for which both Counterparties have agreed all details of the Trade prior to Trade Reporting to The Exchange;

**Block Trade** means any Transaction of the kind set out in Rule 5.5.1 of these Rules;

**Broker** means a Member on The Exchange Derivatives Market which may enter into Trades on behalf of Clients in accordance with these Exchange Derivatives Rules;

**Broker-Dealer** means a Member on The Exchange Derivatives Market which may enter into Trades for its own account or on behalf of its Clients in accordance with these Derivatives Rules;

**Business Day** means any day on which banks are open and/or which is not a public holiday and/or which The Exchange is not closed for business;

**Business Hours** means 9.30 – 14:30 hours WAT or such time as may be further detailed during which Products are available, in the relevant Products Specifications;

**Call Option or Call Option Trade** means an Option Trade which gives the holder the right but not the obligation to buy, at the Strike Price, the Underlying from the Writer;

**Central Counterparty** means a financial institution that performs Clearing Services upon novation of Transactions, and subsequently becomes the Counterparty to all Trades arising from Transactions on The Exchange, also referred to as the **Designated Clearing House**;

**Circuit Breaker** means system level protection algorithm that automatically temporarily halts trading on The Exchange or in individual securities when prices hit pre-defined limits. It stops a Trade from being entered or executed when a price hits a certain level during a given trading session/day. The price limits will be defined and published by The Derivatives Market on its website;

**Clearing** means the process by which the Designated Clearing House becomes the buyer to the seller and the seller to the buyer in every Transaction whereupon the Clearing Member guarantees to the Designated Clearing House all obligations arising out of any position resulting from such Transaction in terms of these Derivatives Rules;

**Clearing Agreement** means a written agreement entered into between a Clearing Member and a Member in terms of which the Member guarantees to the Clearing Member the performance of the obligations arising out of the positions of the Member and the Clients of the Member;

**Clearing House Agreement** means a written agreement entered into between a Clearing Member and the Designated Clearing House in terms of which the Clearing Member guarantees to the Designated Clearing House all of the obligations arising out of its proprietary positions, the positions of its Clients, the proprietary position of the Members it acts for with which it has entered a Clearing Agreement and the positions of the Clients of such Members;

**Clearing House Default Rules** means the default rules specified by the Designated Clearing House as its default rules;

**Clearing Member (“CM”)** means a Member which has entered into a Clearing House Agreement with the Designated Clearing House;

**Clearing Services** means the services provided by the Designated Clearing House to Clearing Member in terms of the Designated Clearing House Rules, to facilitate clearing of transactions in Derivatives;

**Client or Clients** means any person for whom a Member acts in relation to effecting trading, clearing and Settlement of Transactions on The Exchange pursuant to these Derivatives Rules;

**Client Account** means the Account in which Transactions are entered into by a Member on behalf of its own Clients, and accepted as such by the Designated Clearing House;

**Closing Transaction** means the closing of a position in a Listed Product;

**Collateral** means one or more of the forms of security accepted by the Designated Clearing House for such purposes;

**Combination Order** means an Order the terms of which stipulate that two or more Orders in different Series shall be executed simultaneously with other Orders forming part of the combination;

**Company** has the same meaning assigned to it in the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria, 2004;

**Complaint** means either or all of Exchange Complaint or a Member Complaint, as the context requires;

**Counterparty** means a counterparty to a Transaction. There are two Counterparties to every Transaction;

**Cross Trade** means a type of Bilaterally Negotiated Transaction in which the same Counterparty is on both sides of the Transaction;

**Daily Cash Settlement** means the process of cash settlement effected for a Futures Trade on each Business Day during its Lifetime in accordance with these Derivatives Rules and Product Specifications for that Listed Product;

**Daily Settlement Amount** means the amount payable to or by a Member in relation to each Daily Cash Settlement;

**Daily Settlement Price** means the Fair Value price determined by The Exchange and used for margining purposes;

**Dealer** means a Member on The Exchange Derivatives Market which may enter into Trades for its own account in accordance with these Derivatives Rules;

**Declaration of Default** has the meaning given in Rule 6.2.1 of these Rules;

**Defaulting Member** means a Member on which The Exchange has served a Declaration of Default in accordance with Rule 6.2 of these Rules;

**Delivery** means the process of delivering the Underlying specified in the Product Specification applicable to a Listed Product in exchange for payment of the Delivery Settlement Amount;

**Delivery Settlement Amount** means the amount payable by or to the Counterparties for the Delivery;

**Depository Bank** means the Institution that issues a specific Depository Receipt on behalf of the underlying company. The Depository Bank maintains a holding of securities in the Underlying on which it is able to issue Depository Receipts;

**Depository Receipts (DR)** means a Depository Receipt which is listed or traded on The Exchange Order Book and which corresponds to a share, shares or to a percentage of a share of the company in question that is publicly traded;

**Designated Clearing House** means the designated clearing house recognized by The Exchange as the provider of Clearing Services to The Exchange;

**Designated Clearing House Rules** means the rules and procedures of the Designated Clearing House as amended from time to time;

**Designated Clearing House Default Rules** means the default rules specified by the Designated Clearing House as its default rules;

**Disciplinary Committee** means the disciplinary committee of the National Council of The Nigerian Stock Exchange;

**Disciplinary Procedures** has the meaning given in The Exchange Adjudicatory Process;

**Dividend** means unless otherwise specified, an Ordinary Dividend;

**End of Day Price** means the price used to calculate theoretical value of Options Trade positions in order to facilitate the margining process at the clearing level.

**Event of Default** has the meaning given in Rule 6.1.3 of these Rules;

**Exchange or The Exchange** means The Nigerian Stock Exchange (**NSE**);



**Exchange Adjudicatory Process** means the dispute resolution procedure of The Nigeria Stock Exchange as contained in the Procedures;

**Exchange Complaint** means a Complaint made by a Member that arises in connection with the performance of, or alleged failure to perform by, The Exchange any of the obligations to which it is subject under or by virtue of the ISA;

**Exchange Derivatives Market** means the market operated by the NSE in accordance with the Act to facilitate trading in Derivatives;

**Exchange Default Rules** means Chapter 6 of these Rules;

**Exchange Derivatives Rulebook** means the derivatives rules of The Exchange as set out herein as they may be amended from time to time;

**Exchange Derivatives Rules** means:

- a. where used in reference to one or more provisions of The Exchange Derivatives Rulebook, those provisions of The Exchange Derivatives Rulebook; or
- b. otherwise, The Exchange Derivatives Rulebook, the Product Specification, the Procedures and any Notices issued pursuant to The Exchange Derivatives Rulebook and, for the purposes of any Rules concerning non-compliance with or breach of or failure to discharge any of The Exchange Derivatives Rules, shall include provisions of the Membership Agreement;

**Exercise** means the act whereby the holder of an Options Trade chooses to exercise its right to buy or sell the Underlying to the writer under the terms of the Options Trade and will receive Settlement on those terms;

**Expiration** means the date that a Listed Product is due for settlement or exercise;

**Expiration Day** means the date on which Expiration occurs;

**Expiration Month** means the month in which the Expiration Day falls;

**Expiration Settlement Amount** means the monetary amount due to or payable by a Member on Exercise of an Options Trade as specified in the relevant Statement;

**Expiration Settlement** means the procedures for final settlement of a Product on Expiration provided for in these Rules and the Designated Clearing House Rules;

**Expiration Settlement Day** in relation to a Series, means the day on which final Settlement of Transactions in such Series which have proceeded to Expiration Settlement is to be performed. The given day will be specified in the Product Specifications of each Product;

**Expiry Index** means The Exchange expiry indices published by The Exchange that facilitate the calculation of the Expiry Settlement Price for the relevant Trades;

**Fair Value** means the theoretical price calculated using the following elements: the value of the Underlying, applicable interest rate, implied volatility (if applicable), Dividend amount and ex Dividend day;

**Futures Trade** means a Trade, the effect of which is that –

- a. a person agrees to deliver the Underlying to or receive it from another person at an agreed price on a future date; or
- b. a person will pay to or receive from another person an amount of money according to whether, on the future date, the price or value of the Underlying is higher or lower than the agreed price on that future date, in accordance with these Exchange Derivatives Rules and the Product Specification of the Futures Trade and which is included in the list of derivatives kept by The Exchange in accordance with the ISA;

**Futures Price** in relation to a Futures Trade, means the level (price) at which the Counterparties agree to trade;

**Insolvency Event** means, in relation to a person, that the person ceases to trade, or is unable to pay its debts as they fall due or has a petition presented or a meeting convened for the purpose of its winding up (provided that such petition is not merely frivolous) or if it enters into liquidation whether compulsorily or voluntarily or compounds with its creditors generally or an administration order is made in relation to it or it has a receiver or administrative receiver appointed over all or a substantial part of its assets is levied over any of its assets or any similar or analogous order is made or proceeding is commenced or officer is appointed or action is taken in Nigeria or in any jurisdiction or outside Nigeria in consequence of debt;

**Investigation Panel** means the investigation panel of the Nigerian Stock Exchange;

**Issuer** means the Underlying Company on which a security or Depositary Receipt is based;

**Law** means all law, statutory provisions and other rules, regulations and instruments in force from time to time, including the rules of the Securities and Exchange Commission;

**Lifetime**, in relation to a Listed Product, it means the period from the Listing Day to the Expiration Day inclusive;

**Limit Order** means an order entered on to the Order book at a specified price which will execute at that price or better, any residual is retained on the Order book unless designated as an immediate order; if not an immediate order the residual remains until withdrawn or filled;

**Listed Product or Product** means any derivatives product which is available for trading on The Exchange Derivatives Market, the terms of which are detailed in the Product Specifications;

**Listing Day** means the day a Listed Product is made available for trading and as specified on the individual Product Specifications;

**Long Position** means the position of the buyer or “Holder” of a Listed Product. Reference to a **Long party** is reference to that party having a Long Position. The Long party will have the right to exercise an Option or receive delivery on Expiration of a Futures Trade;

**Margin** means cash paid to, and held by, the Designated Clearing House in order to manage Counterparty risk associated with every position. It also means either **initial margin** or **variation margin** or **additional margin** or **retained margin** as the context may require;

**Market Data** means information relating to Listed Products which is published by The Exchange on its website;

**Market Maker** means a Member that is licensed and recognized by SEC and The Exchange as a Market Maker, and which has entered into the Market Maker Agreement;

**Market Maker Agreement** means the standard form agreement entered into between a Market Maker and The Exchange whereby the Market Maker agrees to act as such in relation to certain specified Listed Products;

**Market Maker Obligations Document** means the document, as amended from time to time, which contains further details in respect of Market Makers obligations. This document shall be read in conjunction with the Market Maker Agreement and the Rules of The Exchange Derivatives Market and is available on The Exchange’s website;

**Market Operations** means the operational management relating to derivatives Transactions and processing;

**Market Order** means an Order that executes at best available price until all volume on opposite side has been traded. Residual is converted to a Limit Order at the last price that the original order was executed;

**Member** means a company or legal entity admitted to The Exchange’s Derivatives Market membership and whose membership has not been terminated. For the purpose of the compliance procedures, a Member shall include a former Member where appropriate;

**Member Complaint** means a Complaint made by a Member that alleges a breach of The Exchange Derivatives Rules by another Member;

**Membership Agreement** means the agreement of the same name entered into between The Exchange and each Member setting out each party's obligations in respect of the services of The Exchange's Derivatives Market;

**Membership Criteria** means the criteria set out in Rule 3.2 of these Rules;

**Membership Procedure** means the Membership Procedure in the Procedures;

**National Council** in relation to The Exchange means the persons from time to time in whom the governance of The Exchange at the national level is vested, also referred to as **the Council**;

**NCM-CM Agreement** means tri-party agreement between Non-Clearing Member, the relevant Clearing Member and the Designated Clearing House. This must be in place before The Exchange allows the NCM to begin trading on The Exchange's Derivatives Market;

**Nigerian Time** means Greenwich Mean Time (GMT)+1. All references to time in the rules are references to Nigerian time;

**Non-Clearing Member ("NCM")** means a Member which is not a member of the Designated Clearing House;

**Notice** means an announcement published on The Exchange's website; and which may be e-mailed to relevant recipients' containing important and relevant market updates;

**NSE Platform** means the NSE electronic Exchange Derivatives trading system of The Exchange Derivatives Market, including certain software licensed to The Exchange by any third party and its licensors, including any modification to the NSE Platform or any successor electronic trading platform on which the Products may be traded;

**Opening Transaction** means the opening of a position in a Listed Product;

**Options Contract** means a Listed Product that confers the right but not the obligation to trade the Underlying at a pre-defined price on a pre-defined date in the future. Option Contract also means a Put Option Contract or a Call Option Contract, as the context may require;

**Order** means an offer to buy or sell a number of Listed Products submitted to an Order Book;

**Order Book** means an electronic list of buy and sell orders for a specific Listed Product or financial instrument, organized by price level. The Order Book lists the number of Products being bid for or offered at each price point, or market depth. The Order Book is dynamic and constantly updated in real time during Business Hours.

**Ordinary Dividend** means any Dividend defined as ordinary by the Depository Bank or Issuer;

**Position Limits** means the limits applied from time to time by The Exchange whether generally or in relation to a particular Member imposing limits on the number of Transactions in Listed Products of any type which may be executed by a Member;

**Premium** means the level (price) at which an Options Contract is valued and is payable by the buyer (holder) to the seller (writer) upon completion of a Trade. This payment secures the right to buy or the right to sell at the Strike Price on Exercise;

**Price Lists** means the lists of charges payable for services from The Exchange as published and amended by The Exchange from time to time;

**Procedures** means the Procedures of The Exchange Derivatives Market published as such;

**Product Specification** means the detailed information in respect of a Listed Product set out in The Exchange Derivatives Market Product Specifications document in terms of such Listed Product, as varied from time to time;

**Proprietary Account** means an Account where Transactions entered into by a Member on its own Account, and only such Transactions, are to be accepted and recorded;

**Protest** means a request submitted by a Member to The Exchange requesting the cancellation or amendment of an incorrect Acceptance or the Acceptance of a Transaction which had been omitted, or a request for an amendment of an incorrectly executed or non-executed Exercise or cash Settlement;

**Put Option or Put Option Contract** means an Options Contract which gives the holder the right, but not the obligation, to sell, the Underlying to the Writer at the Strike Price.;

**Related Agreements** means any other agreement The Exchange requires Members to enter into in relation to activity on The Exchange, other than the Membership Agreement and The Exchange Derivatives Rules;

**Representative** means, when applied to any person, any other person which carries out or is responsible for any of that person's functions and shall include each director, officer, employee, nominee or agent of such person;

**Request for Re-Acceptance** means a request submitted by a Clearing Member to The Exchange seeking the Re-Acceptance of one or more Cleared Trades;

**Re-Acceptance** means the process of transferring a Cleared Trade from one Account to another Account pursuant to a Request for Re-Acceptance submitted in accordance with these Rules;

**SEC** means the Securities and Exchange Commission

**SEC Rules** means the rules or regulations made pursuant to the Act by the SEC;

**“Secretary”** means Secretary to the Council of The Exchange;

**Securities** have the same meaning as is assigned to it in the Act, however to the extent that they are under the purview of The Exchange from time to time.

**Series** means a Listed Product represented by:

- a. for futures - the Underlying, month and year (and actual Expiration Day for Tailor-made Products)
- b. for options - the Underlying, month, year, Strike Price and (Options and actual Expiration Day for Tailor-made Products only);

**Settlement** means the process of moving cash or the physical Underlying (where applicable) between Members, normally resulting from trading activities such as Assignment, Exercise, Opening Transactions, Closing Transactions etc;

**Settlement Day** means the day on which cash and/or the physical Underlying (where applicable) is moved between Members in fulfilment of trading obligations such as Assignment, Exercise, Opening Transactions, Closing Transactions etc;

**Settlement Price** means the closing price of the Underlying on the day of Exercise or such other price as may be decided by The Exchange from time to time;

**Settlement Style** means the basis upon which a Trade will be settled. It may be physically settled or cash settled. Physically settled Trades are settled by the delivery of the Underlying, while cash settled Trades are settled in cash without physical delivery;

**Short Position** means the position of the seller or “Writer” of a Listed Product. Reference to a **Short Party** is reference to that party having a Short Position. The Short Party may be assigned an Option or deliver on Expiration of a Futures Contract;

**Standard** means a type of Listed Product which has parameters that adhere to the Product Specifications.

**Standardised Series** means a specific set of calls or puts on the same underlying which has set parameters adhering to the Product Specifications.

**Strike Price** means the price at which an Options Contract Trade will be settled if Exercised or Assigned. The right to buy or sell at the Strike Price is secured by the payment of a Premium. Details of the Premium payable are set out in the Products Specifications;

**Tailor-made** means non-standardised Products in which certain parameters have been altered with respect to standardised Products;

**Tick size** is the smallest increment by which the quoted price can change;

**Tick Value** is the monetary (notional) value of the smallest price increment;

**Trade** means an agreement for the sale or purchase of a Listed Product on The Exchange Derivatives Market between Members of The Exchange concluded by means of the facilities provided by The Exchange for the trading of such instruments in accordance with these Exchange Derivatives Rules;

**Trade Reporting** means the act of informing (via electronic communication) The Exchange of a Bilaterally Negotiated Trade so that it can be considered for Acceptance;

**Transaction** means a Trade formed between two Members in accordance with Chapter 4 of these Exchange Derivatives Rules;

**Transaction Procedure** means the Transaction Procedure in the Procedures;

**Underlying** means the index, commodity, share, bond, interest rate or any other instrument on which a Listed Product may be based;

**Writer**, in relation to an Options Trade, means the Member whose Options Trade is liable to be exercised in accordance with its terms;

In these Exchange Derivatives Rules unless otherwise specified:

- a. the table of contents and the headings are inserted for convenience only and do not affect the interpretation of these Exchange Derivatives Rules as specified;
- b. references to Chapters are to the chapters of this Exchange Derivatives Rulebook;
- c. references to any document are to that document as from time to time amended, restated, novated or replaced, however fundamentally;
- d. references to a person include an individual, partnership, company, corporation, unincorporated body of persons and any government entity;
- e. references to any law or statutory provision include any subordinate legislation made under it;
- f. references to any law or statutory provision include any provision amending it or re-enacting it (whether with or without modification) which is the same as, or substantially similar to, the obligations imposed by the specified statute or statutory provision;
- g. references to time are to Nigerian time unless otherwise specified and are set out in the 24 hour clock convention;;
- h. words importing the plural include the singular and vice versa and the use of any gender includes the other gender; and

- i. any reference to the discretion exercised by The Exchange shall mean The Exchange's sole, unfettered and absolute discretion.
- j. The Council of The Exchange shall have the authority to interpret these Rules. Save as otherwise provided, any such interpretations shall be final and conclusive.
- k. This Rulebook shall be interpreted in conjunction with any Product Specification, Procedure and Notice. Each Member will be bound by such Product Specifications, Procedures and Notices as may be relevant to it which shall be set out on The Exchange's Website.
- l. In the event of any conflict between:
  - i. The Exchange Derivatives Rulebook and the Membership Agreement, The Exchange Derivatives Rulebook shall take precedence;
  - ii. The Exchange Derivatives Rulebook and the Procedures, The Exchange Derivatives Rulebook shall take precedence;
  - iii. The Exchange Derivatives Rulebook and a Notice, The Exchange Derivatives Rulebook shall take precedence except to the extent that a Notice amends The Exchange Derivatives Rulebook;
  - iv. The Exchange Derivatives Rulebook and a Product Specifications, the Product Specifications shall take precedence insofar as the conflict relates to the Product Specification for the type of Trade governed by the Product Specification;
  - v. between a Product Specification and the Designated Clearing House Rules, the Designated Clearing House Rules shall take precedence;
  - vi. between The Exchange Derivatives Rules and any Related Agreement, The Exchange Derivatives Rules shall take precedence; and
  - vii. between The Exchange Derivatives Rules and the Designated Clearing House Default Rules, the Designated Clearing House Default Rules shall take precedence.



## CHAPTER 2

### GENERAL PROVISIONS

#### **2.1 General**

- 2.1.1 These Exchange Derivatives Rules, together with the Membership Agreement and any other documentation given contractual force pursuant to these Exchange Derivatives Rules, form a contract between The Exchange and each Member.
- 2.1.2 No person other than The Exchange has any obligation to Members under these Exchange Derivatives Rules, the Membership Agreement or any Trades, Transactions or Back-Off Transactions. With the exception of Members, no other individual including a Client, shall have any rights under any law or agreement to enforce any provision of these Rules or the Membership Agreement.
- 2.1.3 A Member shall not assign, transfer or create any encumbrance in relation to any of its rights or obligations under these Exchange Derivatives Rules, the Membership Agreement or any Trade, Transaction or Back-Off Transaction save as otherwise set out in these Exchange Derivatives Rules.

#### **2.2 Fees and set-off**

##### **Fees**

- 2.2.1 Members are liable to pay such fees and charges as shall be specified in the Price Lists. The Exchange may amend its fees and charges at any time by way of a Notice and shall endeavour, but shall not be obliged, to give prior notice of any amendment by way of a Notice. Additional fee incentives for Market Makers apply.
- 2.2.2 The Designated Clearing House will collect all fees due and payable under these Rules on behalf of The Exchange. The Designated Clearing House shall invoice each Clearing Member in accordance with the Designated Clearing House Rules for fees and charges incurred during the preceding month by that Clearing Member and any Non-Clearing Member or Client for which it has cleared any Transaction during such preceding month. Each Clearing Member shall pay all such fees and charges incurred by it and any Non-Clearing Members or Clients for which it clears Transactions to the Designated Clearing House in accordance with the Designated Clearing House Rules.
- 2.2.3 Interest will be charged on any due but unpaid amount from the date on which the amount becomes due and payable under these Exchange Derivatives Rules until the date of payment compounded daily.
- 2.2.4 All amounts set out in these Exchange Derivatives Rules and elsewhere as being payable to The Exchange shall be deemed to be exclusive of any value added tax which is chargeable on the supply to which that amount relates. Accordingly, if value added

tax is chargeable on any such supply and the corresponding amount, the relevant Member shall be responsible for paying it in addition to the amount stated as payable.

- 2.2.5 All amounts payable by Members in connection with these Exchange Derivatives Rules and any Transaction, Back-Off transactions or Trade shall be paid without any deduction or withholding for or on account of tax unless such deduction or withholding is required by Law, in which case the amount of the payment due shall be increased to an amount which (after making the deduction or withholding) leaves an amount equal to payment which would have been due if no deduction or withholding had been required.

### **Set off**

- 2.2.6 The Exchange may set off any obligation (whether mature or contingent) due to it from a Member against any obligation (whether mature or contingent) owed by The Exchange to the Member, regardless of the place of payment, account, branch or currency of either obligation.
- 2.2.7 If the obligations in relation to Rule 2.2.6 of these Rules are in different currencies, The Exchange may convert either obligation at such rate of exchange prevailing at the time of calculation for the purpose of the set off. The Exchange shall be entitled to instruct the Designated Clearing House, and the Designated Clearing House shall be entitled to make any necessary adjustments to the Clearing Member's Accounts resulting from the exercise of this right of set off.
- 2.2.8 Nothing in Rule 2.2 of these Rules will be effective to create a charge or other security interest. The rights of The Exchange under Rules 2.2.6 and 2.2.7 of these Rules are without prejudice and in addition to any other rights of set-off, lien, netting, liquidation, combination of accounts or appropriation under these Rules or otherwise.

### **Currency of payment**

- 2.2.9 Amounts payable to The Exchange shall be paid in the currency stated by The Exchange. If a Member makes a payment in a currency other than that stated, The Exchange may convert such amount at such rate prevailing at the time of the calculation as it shall reasonably select. The Member shall indemnify The Exchange against any loss which The Exchange may suffer as a result of such conversion.

### **2.3 Amendments**

- 2.3.1 The Exchange may amend these Exchange Derivatives Rules at any time by issuing a Notice setting out the text of the amended Exchange Derivatives Rules and, where appropriate, a brief explanation of the reason for the amendment.
- 2.3.2 Subject to Rule 2.3.5 of these Rules, The Exchange will publish any proposed amendment to these Rule for consultation and will invite Members to submit

comments in writing within a specified deadline save that The Exchange shall not be required to consult on any amendments to The Exchange Derivatives Rules which:

- a. are minor changes of an administrative or commercial character or where The Exchange reasonably considers that the amendment would not significantly affect the rights, obligations or liabilities of Members or that consultation is otherwise not appropriate;
- b. are considered by The Exchange necessary to ensure compliance with the Laws or a requirement of the SEC by The Exchange or any Member;
- c. are considered by The Exchange necessary as a result of an Event of Default; or
- d. are otherwise considered by The Exchange to be necessary for the purpose of mitigating a significant risk to The Exchange (including by mitigating a significant risk to a Member) provided that The Exchange shall consult with Members on the continued applicability of the amendment following the conclusion of the urgent situation.

2.3.3 The Exchange may consult on a proposed amendment to The Exchange Derivatives Rules with only a limited number of Members if it reasonably considers it appropriate to do so including where, in The Exchange's reasonable opinion, a proposed amendment will affect a limited number of Members or in The Exchange's reasonable opinion is a limited technical amendment.

2.3.4 Subject to Rule 2.3.5 of these Rules, a Notice setting out an amendment to The Exchange Derivatives Rules shall state the date from which such amendment comes into effect, which shall not be earlier than ten (10) Business Days from the date of the Notice except that any of the amendments referred to in Rule 2.3.2(a) to 2.3.2(d) of these Rules may take immediate effect on the date of the Notice.

2.3.5 The Exchange may amend any Product Specification, any Product Specification, the Procedures and Notices at any time by issuing a Notice setting out the text of the amended Product Specification, Product Specification, Procedure or Notice. Any such amendment shall have immediate effect unless otherwise stated in the Notice.

2.3.6 By continuing to participate in The Exchange's derivatives market, a Member will be deemed to accept any amendments to The Exchange Derivatives Rules pursuant to Rules 2.3.1 and 2.3.5 of these Rules. For the avoidance of doubt, no Member shall be entitled to participate in The Exchange's derivatives market unless it accepts The Exchange Derivatives Rules.

2.3.7 No amendment to The Exchange Derivatives Rules shall have the effect of extinguishing any right or discharging any liability incurred under these Exchange Derivatives Rules before such amendment came into effect.

2.3.8 The Exchange shall notify Members of any changes in its Business Days and opening hours from time to time by Notice published on the Website, and which may also be emailed to Members.

2.3.9 If at any time The Exchange decides to cease acting as an exchange, either generally or in relation to a particular type of Listed Product, it shall give prior notice to Members where possible and as soon as reasonably practicable of the proposed withdrawal date, by publishing a Notice on the website and by email to Members.

#### **2.4 Limitations of liability and indemnity**

2.4.1 Neither this Rule 2.4 nor any other part of these Rules shall affect the application of any Law nor exclude or restrict the liability of The Exchange or any other person:

- a. in respect of fraud, bad faith or wilful default;
- b. in respect of personal injury or death resulting from negligence, recklessness or an intentional act or omission; or
- c. otherwise to the extent it cannot be excluded or restricted in accordance with the Law.

2.4.2 Except as provided in Rule 2.4.6 and Rule 2.4.7 of these Rules, The Exchange and each of its Affiliates and each of their respective Representatives shall not be liable to any person for any losses, liabilities, damages, claims, costs or expenses arising from:

- a. any failure, malfunction, fault in delivery, delay, omission, suspension, inaccuracy, interruption, termination, or any other cause, in connection with the furnishing, performance, operation, maintenance, use of or inability to use, all or any part of any of the systems and services of The Exchange or services, equipment or facilities used to support such systems and services, including electronic order entry and delivery, trading through any electronic means, electronic communication of Market Data or information, workstations used by Members or Clients and authorised employees of Members or Clients, price reporting systems and any and all terminals, communications networks, central computers, software, hardware, firmware and printers relating thereto; or
- b. any failure or malfunction, fault in delivery, delay, omission, suspension inaccuracy, interruption or termination, or any other cause, of any system or service of The Exchange or services, equipment or facilities used to support such systems or services, caused by any third parties including independent software vendors and network providers; or
- c. any errors or inaccuracies in information used in any systems of The Exchange or provided by The Exchange or any Exchange systems, services or facilities; or

- d. any unauthorised access to or unauthorised use of any Exchange systems, services or facilities by any person; or
- e. any error, delay or inaccuracy in the submission of an Order or the transmission of information to The Exchange; or
- f. the acts or omissions of The Exchange, the Designated Clearing House, any Member, any Client or any third party and any of their respective Representatives;
- g. any dispute relating to the validity, existence or terms of any Transaction, Back-Off Transactions, Trade; or
- h. any inability to perform its obligations under these Exchange Derivatives Rules as a result of an event of *force majeure* (as defined in Rule 3.12.1(e)).

2.4.3 The limitations of liability in Rule 2.4.2 shall apply whether:

- a. a claim arises in contract, tort, negligence, strict liability, breach of statutory duty, contribution or otherwise; or
- b. a claim is brought directly or as a third party claim.

2.4.4 Neither The Exchange nor any of its Affiliates, nor any of their respective Representatives, shall in any circumstances be liable to a Member or any other person for:

- a. loss of or anticipated loss of profit, loss of or anticipated loss of revenue, loss of use, business interruption, loss of use of any equipment, loss of any contract or other business opportunity or goodwill or punitive loss; or
- b. indirect loss or consequential loss,

2.4.5 Regardless of whether The Exchange has been advised of the possibility of such loss or whether such loss otherwise could have been foreseen.

#### **No warranty**

2.4.6 Except as expressly stated in these Exchange Derivatives Rules and to the extent permitted by law, neither The Exchange, nor its Affiliates, nor any of their respective Representatives gives any express or implied warranties or representations (including warranties of satisfactory quality and fitness for a particular purpose or use) relating to any systems or services of The Exchange or services, equipment or facilities used to support such systems and services, including the NSE Platform.

## Indemnity

- 2.4.7 Each Member shall indemnify The Exchange, each of its Affiliates and each of their Representatives against any and all losses, liabilities, damages, claims, costs or expenses suffered or incurred by The Exchange, an Affiliate or any of their Representatives arising out of or in connection with the Member's conduct or its breach of these Exchange Derivatives Rules, any Transaction, Trade or Back-Off Transaction or the Law.
- 2.4.8 Nothing in these Exchange Derivatives Rules shall require the Member to indemnify The Exchange to the extent not permissible in accordance with the Law.
- 2.4.9 Without prejudice to Rule 2.4.3 of these Rules, The Exchange shall not be liable to any person which is not a Member.
- 2.4.10 For the avoidance of doubt, each, and each part of Rule 2.4.1 to Rule 2.4.9 shall be construed separately, applying and surviving if for any reason one or more than one of the other of Rules 2.4.1 to Rule 2.4.9 or any part thereof is held under any law or in any jurisdiction to be invalid, illegal or unenforceable.

## 2.5 Confidentiality

- 2.5.1 The Exchange will treat as confidential all information received from a Member acquired by it in the course of its operations or investigations or which is held by The Exchange and relates to Transactions, Back-Off Transactions and Trades which the Member has entered into as confidential and, subject to Rule 2.5.2, shall not disclose it to any other person unless the Member agrees otherwise, or the information is or comes into the public domain other than as a result of a breach of this Rule 2.5.1 by The Exchange or its Representatives.
- 2.5.2 The Exchange may disclose such information to such persons, agencies or authorities having responsibility for or in connection with the regulation of investment or any other financial business or in connection with the enforcement of any Law as The Exchange thinks fit (but without prejudice to any other right to disclosure given to it in these Rules) or to any other person to which, and on such terms, as The Exchange considers it reasonably appropriate to disclose such information.
- 2.5.3 Members shall be deemed to consent to any disclosure or non-disclosure of information by The Exchange that is required or permitted by section 306 of the ISA.
- 2.5.4 Any information that is provided to a Clearing Member in order to facilitate a delivery in accordance with the Designated Clearing House Rules, including, but not limited to, the subject matter of the Trade, the identity of the other Clearing Member and the value of the delivery, may only be used by the Clearing Member for the sole purpose of making the delivery as directed by the Designated Clearing House.

2.5.5 As between The Exchange and each Member, The Exchange shall own all intellectual property rights in any data submitted to The Exchange by the Member or a Client of the Member. The Member will promptly execute, and will use reasonable endeavours to procure that any third parties promptly execute, such documents and do such acts as The Exchange may reasonably consider necessary to give full effect to this provision. Notwithstanding Rule 2.5.1 of these Rules, The Exchange may licence such data in accordance with normal market practice.

## **2.6 Severability**

2.6.1 Each of These Exchange Derivatives Rules is severable and distinct from the others. It is intended that every Rule and every part of each Rule shall be and remain valid and enforceable to the fullest extent permitted by law. If any Rule or part of an Rule is or at any time becomes to any extent invalid, illegal or unenforceable for any reason, it shall to that extent be deemed not to form part of these Exchange Derivatives Rules but the validity, legality and enforceability of the remaining Rules and parts of these Exchange Derivatives Rules shall not be thereby affected or impaired.

## **2.7 Waiver**

2.7.1 Except as specifically provided in these Exchange Derivatives Rules, no waiver of any of these Exchange Derivatives Rules or any part thereof shall be effective unless the same shall be in writing, and then such waiver shall be effective only in the specific instance, for the purpose for which the same is given, and such waiver shall not operate as a waiver of any future application of such Rule or part thereof.

2.7.2 The waiver of any right, and the failure to exercise any right or to insist on the strict performance of any of these Rules, shall not operate as a waiver of, or preclude any further or other exercise or enforcement of that or any other right.

2.7.3 Any times fixed by these Exchange Derivatives Rules for the doing of any act or acts required by these Rules may be waived or suspended by The Exchange or its National Council whenever, in its judgment, such extension, waiver or suspension is necessary or expedient.

## **2.8 Governing law and arbitration**

2.8.1 The Exchange Derivatives Rules shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

2.8.2 Subject to Rule 2.8.4 of these Rules, any dispute between The Exchange and a Member arising out of or in connection with The Exchange Derivatives Rules or any Transaction, Back-off Transaction or Trade including any question regarding the validity of the Membership Agreement shall be referred to and finally resolved by arbitration under the Arbitration and Conciliation Act, CAP. A18, Laws of the Federation of Nigeria 2004,

which provisions are deemed to be incorporated by reference into this Rule 2.8 of these Rules.

- 2.8.3 The number of arbitrators shall be three (3). Each party shall appoint one (1) arbitrator and the remaining arbitrator shall be appointed by agreement between the arbitrators appointed by each party. The third arbitrator shall serve as Chairman. The seat, or legal place, of arbitration shall be Lagos State. The language to be used in the arbitral proceedings shall be English.
- 2.8.4 A Member may not submit a dispute, the subject matter of which could constitute a Complaint or which is subject to Disciplinary Procedures under The Exchange Adjudicatory Process, to be resolved by arbitration in accordance with Rule 2.8.2 of these Rules unless and until it has submitted a Complaint on such subject in accordance with The Exchange Adjudicatory Process and that Complaint has been subjected to the procedures set out in the Disciplinary Procedures to which it is subject have ended, including, where relevant, any related Appeal pursuant to The Exchange Adjudicatory Process.
- 2.8.5 The commencement of any arbitral proceedings pursuant to Rule 2.8.2 of these Rules shall be without prejudice to and shall not limit in any way the right of The Exchange to instigate any procedure under The Exchange Derivatives Rules, including without limitation in relation to any Event of Default or any Investigation or Disciplinary Procedures.
- 2.8.6 The Exchange will not be responsible for compliance or non-compliance by any other person with the requirements under the SEC Rules, including concerning offers made to the public.



## CHAPTER 3

### MEMBERSHIP

#### **3.1 Types of membership and application**

- 3.1.1 A person must, at a minimum, demonstrate to The Exchange that it can satisfy the Membership Criteria set out in Rule 3.2 below.
- 3.1.2 Members may effect Transactions in one or more of the following capacities:
- Dealer
  - Broker
  - Broker-Dealer

Where a Member has the necessary regulatory authorisation, it may act in more than one of the above capacities.

- 3.1.3 Members must provide The Exchange with details of all Authorised Persons when completing their membership application.
- 3.1.4 A Member must continue to satisfy the Membership Criteria applicable to its category of membership for so long as it remains a Member of that category.
- 3.1.5 Each Member shall, and shall procure that its Representatives shall act in accordance with The Exchange Derivatives Rules. Different Exchange Derivatives Rules may apply to different categories of Members and the applicable Exchange Derivatives Rules may include a Product Specification that is specific to the type of Transaction or Back-Off Transaction entered into by a particular category of Member.

#### **3.2 Membership Criteria**

- 3.2.1 To satisfy the Membership Criteria, a person must at all times:
- be incorporated as a body corporate in Nigeria;
  - have all necessary authorisations, licences, permissions, approvals or equivalent from the SEC;
  - comply with all Laws and the requirements of the SEC;
  - not be subject to an Insolvency Event or an Event of Default or any circumstances pursuant to which either an Insolvency Event or an Event of Default could be declared;
  - have capital of at least the amount set out in the Membership Procedure for this purpose;
  - be party to an executed Membership Agreement and such other agreements as required by The Exchange from time to time, including where applicable the Related Agreements;

- g. be a Clearing Member or ensure that a Clearing Member assumes responsibility for any Transactions and Trades resulting from their activities and the activities of any of their Clients on The Exchange;
- h. have nominated a Representative, who is sufficiently senior and familiar with these Rules and the Member's activities in relation to The Exchange, to be available to deal with any query or issue raised by The Exchange and be responsible for the Member's actions and the representation of the Member before The Exchange and its Committees;
- i. not have been, or have any senior Representative who has been, convicted of any offence involving fraud, theft, false accounting, offences against the administration of public justice, serious tax offences or other dishonesty or an offence relating to companies, insurance, banking, other financial services, consumer credit or consumer protection, money laundering, bribery, market abuse or insider dealing or be, or have any senior Representative who is, under investigation for committing such an offence;
- j. satisfy The Exchange as to its fitness and propriety, financial, operational, technical and risk management capacity, competence, facilities and organisational arrangements to be able to satisfy its obligations under these Rules and demonstrate, to the satisfaction of The Exchange, that its systems and controls ensure that all personnel, agents and representatives who act on behalf of or in the name of the Member in the conduct of business on The Exchange are fit and proper with appropriate qualifications and experience and are trained and properly supervised to perform such functions in connection with the conduct of business on The Exchange;
- k. satisfy The Exchange that it has in place adequate systems and controls surrounding the submission of Orders to The Exchange, including any controls required by The Exchange or the SEC and systems and controls to ensure that any individuals who submit Orders to The Exchange in its name are fit and proper, suitable, adequately trained and properly supervised to perform such activity provided that an individual need not satisfy this clause (k) where it which has entered into a NCM-CM Agreement with a Clearing Member and the Designated Clearing House;
- l. satisfy The Exchange that it has in place adequate written anti-money laundering, bribery and corruption, risk management and disaster recovery and business continuity policies and procedures to ensure that it is able to perform its obligations under these Rules and Law;
- m. be engaged in or demonstrate immediate capacity to engage in activity on The Exchange;
- n. demonstrate that it is in compliance with these Rules; and
- o. satisfy any further requirements which The Exchange may reasonably impose on a Member from time to time.

### **3.3 Members Clearing Arrangements Rules**

- 3.3.1 A Member must either be a Clearing Member or have made satisfactory arrangements with a Clearing Member in order to guarantee the clearing of any Trades executed on

The Exchange.

- 3.3.2 In accordance with Rule 3.4.1 of these Rules, a Member shall only be entitled to participate in trading at The Exchange if it is either a Clearing Member or is a Non-Clearing Member which has entered into a NCM-CM Agreement with a Clearing Member and the Designated Clearing House.
- 3.3.3 A Clearing Member shall open one or more Accounts at the Designated Clearing House for the Acceptance of Transactions effected by the Member (including for its Clients and for Non-Clearing Members and their Clients). A Member which intends to act as a Market Maker shall open one or more Accounts for the Acceptance of Trades entered into by it in the capacity of Market Maker as specified for such purposes in the Designated Clearing House Rules.
- a. A Member which intends to enter into Trades on its own account shall open an Account for the Acceptance of Transactions entered into by it on such basis specified for such purposes in the Designated Clearing House Rules.
  - b. A Member which intends to act for Non Clearing members and or its Clients shall open one or more Accounts specified for such purposes in the Designated Clearing House Rules.
- 3.3.4 In accordance with 3.4.1 a Member shall maintain the necessary clearing arrangements, either directly or with a Clearing Member acting on its behalf, and in particular is required:
- a. to maintain one or more accounts at a bank approved by the Designated Clearing House to ensure the timely clearing and Settlement of all Trades;
  - b. to complete such documents as may be required by the Designated Clearing House, to facilitate the delivery of Securities or other Underlying on Expiration of Futures Trades and Options Trades in the forms prescribed by the Designated Clearing House;
  - c. to satisfy The Exchange that arrangements are in place for the provision of Collateral by the Member as and when required in accordance with these Exchange Derivatives Rules;
  - d. to be bound by the rules and procedures of the Designated Clearing House.

### **3.5 Trading on behalf of Clients**

- 3.5.1 Each Member may submit Orders to The Exchange on behalf of a Client provided that the Member shall be deemed to submit such Orders as principal, rather than as agent for the Client.

3.5.2 Where a Member submits Orders to The Exchange on behalf of a Client:

- a. it shall provide such further information about such Client and the Orders submitted on its behalf as The Exchange may require and use its best endeavours to procure that each Client provides to The Exchange such information about such Client and the Orders submitted on its behalf as The Exchange may require;
- b. it must satisfy itself that the acts and omissions of its Clients and their Representatives will not prevent it from complying with these Rules, it must impose the prohibitions set out in Rule 3.8 of these Rules on each Client and its Representatives and it must procure that each Client and Representative complies with Chapter 6 of The Exchange Derivatives Rules as if the Client were a Member; and
- c. it must procure that each Client cooperates with The Exchange in the event of any action being taken against the Member in the same way as set out in Rule 6.2.2 of these Rules, save that the Client shall not be required to permit access without notice to its business premises.

3.5.3 Without prejudice to Rules 3.10 and 3.11 of these Rules, if The Exchange has reason to believe or suspect that any Client is conducting trading activities in violation of these Exchange Derivatives Rules or in a manner that otherwise threatens the integrity or liquidity of any Listed Product, The Exchange may request such Client to submit to the processes set out in Chapter 6 of The Exchange Derivatives Rules for the purpose of such matter, in which case the Adjudicatory Process of The Exchange will apply to such matter as though the Client were a Member and the Member shall cooperate fully with The Exchange in the investigation.

### 3.6 Notification Requirements

3.6.1 Each Member shall notify The Exchange in writing immediately in the event of any of the following:

- a. it ceases to be able to satisfy any of the Membership Criteria and, if applicable, the Clearing Membership Criteria, or reasonably believes it may cease to do so;
- b. any material changes are made to the information previously provided to The Exchange, including:
  - i. name and address of the Member;
  - ii. senior executive officer or compliance officer of the Member;
  - iii. scope of trading activity in relation to business conducted on The Exchange's Derivatives Market;
  - iv. access to the trading system; and

- v. scope of clearing arrangements in relation to a Member's business on The Exchange's Derivatives Market, including clearing codes.
  - c. the Member is notified that the SEC or any other regulator shall investigate any of its affairs, or the affairs of its parent or group company, which is material in terms of the overall size of its group or take disciplinary or other formal action against it or the Member has reason to believe that the SEC or regulator is considering the same; and
  - d. of anything relating to the Member of which The Exchange would reasonably expect notice.
- 3.6.2 Each Member shall seek prior written approval from The Exchange for any material change in its form or organisation, ownership structure, or business operations, including:
- a. a merger, combination or consolidation between the Member and another person;
  - b. a change in the direct or indirect beneficial ownership of 10% or more of the equity of the Member;
  - c. the sale of a significant part of the Member's business or assets to another person; and
  - d. a material change in its business operations.
- 3.6.3 Each Member shall furnish to The Exchange such documents in a timely manner with respect to any of the foregoing events as The Exchange may from time to time require.
- 3.6.4 All information provided to The Exchange by or on behalf of the Member shall be accurate, complete and not misleading and shall be provided in a format approved by The Exchange. All information shall be provided to The Exchange in English. Where any documents to be provided to The Exchange are not in English, a translation of the document should be provided along with the original.

### **3.7 Right to audit**

- 3.7.1 The Exchange shall be entitled to conduct audits on each Member's compliance with these Rules. Each Member shall for such purposes:
- a. provide such information, books and records as The Exchange may reasonably request; and
  - b. co-operate with The Exchange in the same way as set out in The Exchange Adjudicatory Process for such purposes.

### **3.8 Prohibitions**

- 3.8.1 A Member shall not:

- a. breach any Law or requirements of the SEC or any of these Exchange Derivatives Rules;
- b. engage in any behaviour which amounts to market abuse, insider dealing, market manipulation, money laundering, bribery or corruption, fraud or which is in breach of any similar Law or, which in the reasonable opinion of The Exchange, would be likely to have a material adverse effect on the Member's suitability as a Member;
- c. engage in any other practice which The Exchange reasonably considers to be capable of impairing the integrity of The Exchange;
- d. take any action which in the reasonable opinion of The Exchange is likely to bring The Exchange or any of the Members into disrepute or otherwise damage the reputation of The Exchange;
- e. use any of the facilities provided by The Exchange in contravention of The Exchange Derivatives Rules or other than for the purpose of conducting its business as a Member; or
- f. fail to supervise properly (in the reasonable opinion of The Exchange) its Representatives and Client and their Representatives in their use of The Exchange.

### **3.9 Summary access suspension**

- 3.9.1 The Chief Executive Officer or the Head of Regulation of The Exchange or any of their delegates, upon a good faith determination that there are substantial reasons to believe that immediate action is necessary to protect the best interests of The Exchange, may order that any Member (and/or Client, to the extent relevant) be suspended from accessing The Exchange and/or NSE Platform.
- 3.9.2 The affected Member shall promptly be informed of the action taken pursuant to Rule 3.9.1 of these Rules, it shall also be promptly informed of the reasons, and the effective date, time and duration of the access suspension. If the Member wishes to have its access to The Exchange and/or the NSE Platform restored before the end of the stated period, it may request in writing The Exchange to refer the matter to the Disciplinary Committee. The Disciplinary Committee will hear the matter in accordance with The Exchange Adjudicatory Process. In addition to the sanctions available to the Disciplinary Committee under The Exchange Adjudicatory Process, the Disciplinary Committee shall have the right to cancel, shorten or extend the period for which the Member is suspended access to The Exchange and/or the NSE Platform. The Member shall cooperate with The Exchange as set out in The Exchange Adjudicatory Process and the appeal process set out in The Exchange Adjudicatory Process shall also apply.
- 3.9.3 A Member which is suspended pursuant to The Exchange Adjudicatory Process may not submit Orders but shall continue to comply with these Rules and take such actions or cease to take such actions as The Exchange deems necessary or appropriate.

### 3.10 Emergency actions

3.10.1 The Chief Executive Officer or Head of Regulation of The Exchange or any of their delegates is authorised to determine whether an emergency exists and whether emergency action is warranted. The following events and/or conditions may constitute emergencies:

- a. any actual, attempted or threatened behaviour contrary to Rule 3.10 of these Rules;
- b. any action taken by any government body or any regulatory authority or any other exchange or the Designated Clearing House or any other clearing house which may have a direct impact on trading on The Exchange;
- c. the occurrence of an actual or threatened Insolvency Event in respect of a Member or the imposition of any injunction or other restraint by the SEC or other regulators on a Member which may affect the ability of that Member to perform any obligations it may have under any Transactions, Trades or Back-Off Transactions;
- d. any circumstance in which it appears that a Member or any other person has failed to perform any obligations it may have under any Transactions, Trades or Back-Off Transactions or the Member or such person is in such financial or operational condition or is conducting business in such a manner that the Member or such person cannot be permitted to continue in business without jeopardizing the safety of Members or The Exchange;
- e. Force majeure, which shall mean any circumstances (including but not limited to a strike, lockout, national emergency, governmental action, or act of God) which is beyond the control of the Counterparties to Trades, and which prevents the Counterparties from making or taking delivery or effecting payment when and as provided for in The Exchange Derivatives Rules (each of which is a *Force Majeure* Event);
- f. any other circumstance which may have a severe or adverse effect on the functioning of The Exchange.

3.10.2 In the event that the Chief Executive Officer or the Head of Regulation of The Exchange or any of their delegates determines pursuant to Rule 3.10.1 of these Rules that an emergency exists, such person may take any of the following actions or any other action that may be appropriate to respond to the emergency:

- a. terminate trading;
- b. limit or deny access to The Exchange or the NSE Platform;
- c. limit trading to liquidation of Transactions, Trades or Back-Off Transactions only;
- d. impose or modify Position Limits and/or order liquidation of all or a portion of a Member's Account;
- e. order liquidation of positions as to which the holder is unable or unwilling to make or take delivery;
- f. confine trading to a specific price range;
- g. modify price limits;
- h. modify the trading sessions;
- i. modify conditions of delivery;

- j. establish the Settlement Price and/or the final settlement price of any Transactions, Trades or Back-Off Transactions;
- k. amend any Product Specifications; or
- l. order any other action to address or relieve the emergency.

3.10.3 The Exchange shall notify the SEC of any actions taken pursuant to Rule 3.10 of these Rules.

### **3.11 Termination of membership**

3.11.1 A Member shall give notice of its intention to terminate its membership of The Exchange by providing the Secretary of the Council of The Exchange with notice in writing. The termination will not be effective until ninety (90) Business Days from the date of the notice. A copy of the notice shall forthwith be posted on the notice board in The Exchange rooms. The Chief Executive Officer or the Head of Regulation of The Exchange or any of their delegates shall advise the Secretary of any outstanding debts, obligations and commitments of the resigning Member and of any outstanding dealings and transaction in which the Secretary may be concerned.

3.11.2 For the avoidance of doubt, if a Clearing Member ceases to be a member of the Designated Clearing House in accordance with the Designated Clearing House Rules, such Member will cease to be recognized as a Clearing Member under The Exchange Derivatives Rules. In such circumstances, The Exchange shall deem the Member to be a Non-Clearing Member provided that such a Member continues to meet the Membership Criteria in Rule 3.2 of these Rules. If the Membership Criteria in 3.2 of these Rules are not met when the Member ceases to be a member of the Designated Clearing House, The Exchange shall, in its sole discretion, terminate the Member's membership of The Exchange with immediate effect.

3.11.3 Subject to The Exchange Adjudicatory Process, The Exchange may terminate the membership of any Member by providing the Member with not less than thirty (30) Business Days' notice in writing.

3.11.4 Following termination of a Member's membership, the Member shall:

- a. remain subject to The Exchange's jurisdiction as set out in Chapter 6 until any actions arising as a result of a Declaration of Default having been issued to the Member have been completed;
- b. remain subject to The Exchange's jurisdiction as set out in Chapter 8 with respect to matters that occurred prior to termination provided that The Exchange gives written notice of the commencement of an inquiry into such matters to the former Member within one (1) year of termination; and
- c. promptly discharge any of its remaining obligations under these Rules and take such other actions as The Exchange deems necessary or appropriate for this purpose.



## CHAPTER 4

### FORMATION OF TRANSACTIONS AND TRADES

#### **4.1 Formation of Transactions**

- 4.1.1 When one Order is matched with another Order on the NSE Platform, a Transaction is created between the Member which submitted one of the Orders and the Member which submitted the other Order.
- 4.1.2 Each Transaction concluded pursuant to Rule 4.1.1 of these Rules is submitted by The Exchange to the Designated Clearing House for Clearing. If the Transaction is Accepted ("**Accepted**") by the Designated Clearing House a Cleared Trade is deemed to be formed and the original Transaction is deemed to be discharged by novation to the Designated Clearing House.
- 4.1.3 The novation to the Designated Clearing House is to the effect that:
- a. the Designated Clearing House shall assume the position of seller to the buyer and the position of buyer to the seller,;
  - b. the Designated Clearing House shall have all the rights and be subject to all the liabilities of each Clearing Member which was, or was deemed to be, party to the Transaction; and
  - c. each Clearing Member which has, or is deemed to have, any rights or obligations under the Transaction shall be released and discharged from all such rights and liabilities.
- 4.1.4 If a Transaction relates to a Product Specification which is not capable of being accepted for clearing by the Designated Clearing House it shall not be novated. If the Transaction is not novated, it shall be unwound by the Clearing Members concerned.
- 4.1.5 Upon Acceptance of a Trade effected by a Member for a Non-Clearing Member, a Back Off Trade shall be deemed to be formed between the Clearing Member and the Non-Clearing Member.
- 4.1.6 The terms of the Back Off Trade shall be identical to those of the original Trade or Transaction save that the Clearing Member shall assume the obligations of the Designated Clearing House and the Non-Clearing Member shall assume the obligations of the Clearing Member.
- 4.1.7 The provisions of this Rulebook shall apply to Back Off Trades.

## **4.2 Transactions**

- 4.2.1 Transactions may be entered into The Exchange's trading system by Trading Members or by Clearing members carrying out proprietary trades.
- 4.2.2 Each Clearing Member shall be party to and liable as principal in respect of each Transaction it enters into regardless of whether it is acting on its own behalf or on behalf of a Non-Clearing Member or a Client.
- 4.2.3 Each Clearing Member shall be party to and liable as principal in respect of each Back-Off Transaction it enters into.
- 4.2.4 Each Non-Clearing Member shall be party to and liable as principal in respect of each Back-Off Transaction it enters into regardless of whether it is acting on its own behalf or on behalf of a Client.
- 4.2.5 The Exchange has no contractual relationship with any Client under these Rules and Clients do not have any of the rights or benefits of a Member.
- 4.2.6 The validity of a Transaction is determined pursuant to The Exchange Derivative Rules. Each Transaction is subject to The Exchange Derivative Rules.

## **4.3 Cleared Trades**

- 4.3.1 A Cleared Trade is formed upon the novation of the Transaction by the Designated Clearing House in accordance with the Designated Clearing House rules.
- 4.3.2 The validity of a Cleared Trade is determined pursuant to these Exchange Derivatives Rules and the Designated Clearing House Rules. Each Cleared Trade is subject to The Exchange Derivatives Rules and the Designated Clearing House Rules as applicable.

## **4.4 Transactions on behalf of Clients**

- 4.4.1 Where a Clearing Member enters into a Transaction on behalf of a Client or a Non-Clearing Member enters into a Back-Off Transaction on behalf of a Client,
- a. if the Member is buying from the Client, it will be selling under the Transaction (if it is a Clearing Member) or the Back-Off Transaction (if it is a Non-Clearing Member); and
  - b. if the Member is selling to the Client, it will be buying under the Transaction (if it is a Clearing Member) or the Back-Off Transaction (if it is a Non-Clearing Member).
- 4.4.2 For the avoidance of doubt, Trades between a Clearing Member and a Client, or between a Non-Clearing Member and a Client are not Cleared.

- 4.4.3 A Member must not represent to a Client that it has entered into Nigerian Stock Exchange Derivatives Market Transaction (in whatever terms) for a Client unless a Transaction or Back-off Transaction is entered into by that Member in respect of the relevant Trade with the Client.

EXPOSURE DRAFT

## CHAPTER 5

### TRADING RULES

#### **5.1 General**

- 5.1.1 All Transactions on The Exchange Derivatives Market shall be effected automatically on The Exchange's Order Book or through The Exchange Derivatives trade reporting system.
- 5.1.2 Standardised series Products and Cross Trades shall also be traded through The Exchange Derivatives trading system, via the submission of Orders through the Order Book.
- 5.1.3 Orders submitted onto the Order Book or the NSE Platform shall be:
- firm and unequivocal
  - the responsibility of the Member who submitted it
- 5.1.4 A Member shall be liable for all obligations and liabilities arising from the submission of electronic messages and Orders to The Exchange Derivatives trading system under that Member's trading. Consequently, all The Members shall, at all times, have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous Orders to the trading system.
- 5.1.5 When using The Exchange's Exchange Derivatives trading system to submit Orders, a Member shall comply with the procedural, operational and technical requirements of The Exchange's systems and networks as specified by The Exchange from time to time.
- 5.1.6 A Member may contact Market Operations to cancel an Order originated from the electronic trading system. Such requests must be from an Authorised Person.

#### **5.2 Erroneous Orders**

- 5.2.1 An Order shall be considered to be erroneous where:
- any of the counterparties had no intention to trade in the Listed Product and the Order was entered mistakenly or,
  - the terms of the Order entered did not represent the intended Trade
- 5.2.2 In determining whether an Order is erroneous, The Exchange will ask the Member for details of the background to the Order. The Exchange will also consider additional factors in deciding whether to query an Order such as:
- an aggressively priced Limit Order that executes against a significant number of Orders on one side of the Order Book, which could take place, for example, if price and size have been entered in the wrong fields; or



- b. an Order that is divided into sizes either not intended by the Member or,
  - c. an Order with sizes that are so small or so large as to be inappropriate, or,
  - d. current market conditions, including volatility and liquidity; and
  - e. the release of economic data and other relevant news affecting the relevant Underlying of the Order.
- 5.2.3 In order to prevent the entry of erroneous Orders to the Order Book, Members shall ensure that their systems are designed to identify and prevent the entry of such Orders. Systems that use controls and system alerts, which may be based on some or all of the following are considered adequate:
- a. the current spread in the market;
  - b. trader, product-specific or firm-wide size and price limits;
  - c. the likely movement in the price of the Listed Product if the Order or quote is submitted; and
  - d. a minimum and maximum notional value per Order or quote.
- 5.2.4 Members may develop their own bespoke controls and system alerts which contain all or other controls and system alerts enumerated in Rule 5.2.3 above to prevent the entry of Orders and quotes which, because of their price, size and/or nature, could impact on the smooth running of the market.
- 5.2.5 In deciding what action to take against a Member for the submission of any apparently erroneous Order, The Exchange will consider both the potential and the actual market impact of such Orders. It will also have regard to the relative frequency with which the Member submits such Orders or quotes.
- 5.2.6 The Exchange reserves the right to delete any Order submitted on to the Order Book where The Exchange believes it necessary in order to preserve market orderliness.
- 5.3 Reacceptance of Trades**
- 5.3.1 A request for Re-Acceptance of a Trade in a Listed Product shall take effect from the time at which The Exchange confirms to the Designated Clearing House that such application has been accepted and the Designated Clearing House amends the particulars recorded in its clearing system in accordance with such request for Re-Acceptance and registers the Trades in the appropriate Accounts in accordance with its terms.
- 5.1.7 An incorrectly accepted Trade may be cancelled or corrected provided that a valid Protest is made to The Exchange in accordance with the appropriate cancellation rules.

In the absence of any such Protest, an incorrectly accepted Trade will remain in full force and effect and will bind the affected Counterparties to such Trade.

5.1.8 Following Acceptance of a Trade in the clearing system pursuant to the Designated Clearing House Rules, it is deemed to be discharged by novation to the Designated Clearing House and the Counterparties of the Trade have the rights and obligations to such Trade for the duration of the Trade.

## 5.2 Orders

5.2.1 On placing an Order a Member offers to buy or to sell the Listed Products in the Series in accordance with the terms specified in the Order. An Order is construed as an offer and remains open for acceptance unless and until the Order is varied or cancelled by the Member.

5.2.2 The following information shall be provided by a Member when placing, cancelling or varying an Order by way of the electronic trading system:

- a. the Series, Settlement Style, and the Listed Product in question;
- b. the Expiration Month;
- c. whether its Order is to buy or to sell;
- d. in the case of an Options Trade, whether it is a call or a put;
- e. the price for the Order;
- f. the Order's volume;
- g. whether it is a Limit Order, Market Order or a Combination Order;
- h. the Account to which the Trade, if executed, is to be allocated;
- i. if appropriate, the identification code of the Client for whom the Order has been placed.

5.2.3 The value of every Order placed on the Order Book must not exceed the maximum permitted size for the Product in question. Members should note that any Order placed on the Order Book which exceeds the applicable maximum permitted size shall be rejected. The Exchange shall inform a Member which contravenes this rule. Price and quantity restrictions are detailed in The Exchange Derivatives Market Trading Services Description on The Exchange's website.

5.2.4 The relevant Product Specification for every Product shall specify the Tick size applicable for trading on the Order Book.

### **5.3 Market Making Rules**

- 5.3.1 All Market Makers are required to maintain an electronic connection to The Exchange and to provide quotes in the Listed Products that are available for market making and in which they have agreed to act as such by such means.
- 5.3.2 A Market Maker shall enter into a Market Maker Agreement with The Exchange specifying the Listed Products in which it agrees to act as such and the capacity in which it will act in respect of each Listed Product.
- 5.3.3 All details covering market making activity are outlined in these rules and the market making documents published on The Exchange's website.
- 5.3.4 A Market Maker may act in such capacity as is specified in in the Market Maker Obligations Document applicable to the Listed Product in question.
- 5.3.5 A Market Maker which performs its obligations as such to the satisfaction of The Exchange shall pay fees in relation to Trades effected by it in its market marking capacity as specified more particularly in the Market Maker Obligations Document. Where a Market Maker does not meet its obligations as specified in the Market Maker Obligations Document it shall pay the standard member fees.

### **5.4 Market Maker Rules**

- 5.4.1 The Exchange may from time to time, in the interest of promoting market liquidity, operate one or more liquidity schemes. The Exchange shall, in relation to each Liquidity Scheme, determine the terms of the liquidity scheme including, but not limited to, the categories of Member who shall be eligible to participate in a liquidity scheme, the maximum number of participants in a liquidity scheme, the benefits to the participating Members of a liquidity scheme and the Listed Products to which the liquidity scheme shall relate. Details of any liquidity schemes offered by The Exchange from time to time will be published on The Exchange's Website.
- 5.4.2 All Market Makers are required to maintain an electronic connection to The Exchange and to provide quotes in the Listed Products that are available and in which they have agreed to act as such by such means.
- 5.4.3 A Market Maker shall enter into a Market Maker Agreement with The Exchange specifying the Listed Products in which it agrees to act as such and the capacity in which it will act in respect of each Listed Product.
- 5.4.4 All details covering liquidity provision are outlined in these Rules, the liquidity scheme and the fees payable by the Market Maker shall be published on The Exchange's

website.

- 5.4.5 A Market Maker may act in such capacity as is specified in the liquidity scheme applicable to the Listed Product in question.
- 5.4.6 A Market Maker which performs its obligations as such to the satisfaction of The Exchange shall pay fees in relation to Trades effected by it in its Market Maker capacity as specified more particularly in the Market Maker Obligations Document. Where a Market Maker does not meet its obligations as specified in the Market Maker Obligations Document it shall pay the standard member fees.

## **5.5 Block Trades**

- 5.5.1 The Exchange shall, in the Transaction Procedure and Product Specifications, designate the Listed Products in which Block Trades shall be permitted and determine the minimum quantity thresholds for such Transactions.
- 5.5.2 A Block Trade must be for a quantity that is at or in excess of the applicable minimum threshold. Orders may not be aggregated in order to achieve the minimum Transaction size.
- 5.5.3 A Member shall not execute any Order by means of a Block Trade for a Client unless such Client has specified that the Order be executed as a Block Trade. During subsequent negotiation of the Order, it must be made clear to any potential counterparties that the price being quoted is a Block Trade price. A Member must not disclose the identity of the party to a Block Trade order to potential counterparties unless the Member has previously received that party's permission to do so.
- 5.5.4 The price at which a Block Trade is executed must be fair and reasonable in light of:
- a. the size of the Block Trade;
  - b. the prices and sizes of other Transactions in the same Listed Product at the relevant time;
  - c. the prices and sizes of Transactions in other relevant markets including the underlying cash market or related derivatives markets at the relevant time; and
  - d. the circumstances of the markets or the parties to the Block Trade.
- 5.5.5 Block Trades shall not set off conditional Orders or otherwise affect Orders ordinarily submitted to the NSE Platform.
- 5.5.6 Both the Seller and Buyer or a third party authorised by either of them to act on its behalf (i.e. Broker, the buyer, Clearing Member) must ensure that each Block Trade is



reported within the time frame set out in the Transaction Procedure. The report must include the Listed Product, Trade month, price, quantity of the Transaction, the respective Clearing Members, the time of execution, and, for options, strike price, put or call and Trade month. The Exchange shall promptly publish such information..

- 5.5.7 Block Trades must be submitted to the Designated Clearing House for clearing as set out in the Transaction Procedure.
- 5.5.8 Members involved in the execution of Block Trades must maintain a record of the Transaction in accordance with Exchange Derivatives Rule 5.8. The time of execution of the Block Trade must also be recorded.

## **Cancellation of Incorrect Trades**

### **5.6 General**

- 5.6.1 The Exchange reserves the right to forcibly cancel any Trades without the permission of either Counterparty. Circumstances under which this can occur may include, but are not limited to:
- a. an error (technical or operational) on the part of The Exchange or its systems;
  - b. material breach of any Law, any of these rules or any rule of an Affiliate of The Exchange (such as the Designated Clearing House);
  - c. The Exchange judges that cancellation of the Trade would be in the interests of the market;
  - d. for Dividend derivatives, where a Trade occurs on the basis of material or erroneous information.
- 5.6.2 The Exchange will only accept cancellation requests from an Authorised Person at the Member as documented by the Member in the Schedule of Authorised Persons Form.
- 5.6.3 A Member that is perceived to be cancelling Trades with higher than average regularity will be warned once by The Exchange. If the activity continues the Member may be suspended from the market.

### **5.7 Cancellation of Incorrect Trades**

- 5.7.2 No Trades in any Listed Product will be considered for cancellation if the request to cancel is received by Market Operations after the close of business on the Business Day following the day of the transaction.
- 5.7.3 On receiving a request from a Member to cancel a Trade, The Exchange will contact

the other Counterparty and request that the Trades be cancelled. Should the Counterparty not agree, the Trades will not be cancelled

- 5.7.4 Where both Counterparties wish to make adjustments to a Bilaterally Negotiated Trades that has already been Accepted, the rules for Re-Acceptance apply.

## 5.8 Position Limit Rules

- 5.8.2 The Exchange may set Position Limits prescribing the maximum number of Cleared Trades in a Standard Series which may be held by a Member or a Client at any time. Such Position Limits will be set by The Exchange in the interests of maintaining a proper market in the Listed Product in question.
- 5.8.3 Position Limits may also be set by The Exchange following discussions with the Designated Clearing House where The Exchange and the Designated Clearing House are satisfied that such action is necessary in order to manage the risk represented by the Member in question.
- 5.8.4 The Exchange will notify Members of the imposition of Position Limits in relation to any Listed Product or of any variation in existing Position Limits.
- 5.8.5 A Member shall not enter into any Trade in a Listed Product if such Trade would result in Position Limits applicable to the Listed Product in question being breached by the Member or the Client for whom the Member is acting in relation to the Trade.
- 5.8.6 A Member shall take such action as The Exchange may direct in order to rectify any breach of a Position Limit by the Member. Where the Member fails to act in accordance with instructions given by The Exchange in accordance with these Rules, The Exchange may take such action as it considers necessary in the circumstances including, without limitation, excluding the Member from participation in trading at The Exchange's Derivatives Market and effecting in the name of and at the expense of the Member such Trades as The Exchange at its sole discretion considers are necessary to cure the breach of the relevant Position Limit.
- 5.8.7 Breach of a Position Limit shall be a disciplinary offence under these Rules. A Member which has breached a Position Limit imposed by The Exchange will be subject to disciplinary action in accordance with The Exchange Adjudicatory Process. The Exchange may investigate positions registered in Accounts held by a Member to establish whether the Member has registered positions in more than one Account in an attempt to circumvent Position Limits applicable to such Member.

## 5.9 Trade Reporting Rules

- 5.9.2 The provisions of Rule 5.9 of these Rules provide for the Trade Reporting and Acceptance of Bilaterally Negotiated Trades to The Exchange in Standard Series and Tailor-made Futures Trades or Options Trades.
- 5.9.3 Trades in Standard Series and Tailor-made Trades are to be reported to The Exchange through templates provided by The Exchange and made available on The Exchange's website.
- 5.9.4 Trades reported to The Exchange should be reported in a timely manner but, in any event, no later than one hour after the time of the Trades.
- 5.9.5 Standard Series Trades are subject to The Exchange's automated controls. Tailor-made series Trades are subject to a reasonable theoretical fair value price validation. Following validation by The Exchange, the relevant particulars are communicated to the Designated Clearing House which then determines that the Trades are acceptable on the terms specified within the Trades report with the Member or Members in question
- 5.9.6 All Trades reports can only be accepted on valid Business Days for the specific market as determined by The Exchange.
- 5.9.7 Where The Exchange informs the Designated Clearing House that it is in receipt of a Trade report before the relevant deadline and agrees to enter into a Trade pursuant to such Trade report, the Trade in question shall be Accepted by the Designated Clearing House on that day. Where a report relating to the acceptance by The Exchange of the Trade report is received by the Designated Clearing House after such time, the Trade in question shall be considered for Acceptance by the Designated Clearing House on the next Business Day.
- 5.9.8 All such Accepted Trades will be Cleared by the Designated Clearing House as the Central Counterparty in accordance with and subject to the Designated Clearing House Rules.
- 5.9.9 If for any reason the registered Expiration Day for a Tailor-made Trade proves not to be a Business Day for the relevant Trade, The Exchange shall have the power to modify the Expiration Day by bringing it forward to the Business Day for the Trade in question immediately preceding the reported date.
- 5.9.10 The Member should provide details of the Trade and must meet the criteria for acceptance. The required details will include:
- a. the type and class of a Standard or Tailor-made Trade;
  - b. the term of any Tailor made Trade;

- c. the Strike Price;
- d. the Settlement Style;
- e. whether it wishes to buy or to sell;
- f. the name of the Counterparty; and
- g. Account type.

5.9.11 The acceptance of such request will be at the discretion of The Exchange and the Designated Clearing House. The request will not, however, be accepted unless a corresponding Trade report is confirmed by each Counterparty to The Exchange and that such request is accepted for Registration.

5.9.12 A Trade report of a Bilaterally Negotiated Trade in accordance with this rule must be submitted to Market Operations by electronic communication using predefined templates. The Exchange will inform each Member submitting such request promptly as to whether it has been accepted for Registration or not.

#### **5.10 Protests**

5.10.2 Members have access to Statements specifying the Trades which have been Accepted for clearing in their Accounts at the Designated Clearing House.

5.10.3 The Member shall satisfy itself that the information contained in the Statement is complete and correct in all respects and that the Statement records accurately the terms of the Trades affected by the Member at The Exchange on the day in question.

5.10.4 A Member which uses the services of a Clearing Member shall confirm with such Clearing Member that the particulars of Trades shown in the Statements as having been entered in to by the Member are complete and correct in all respects.

5.10.5 In accordance with the Designated Clearing House Rules, the Member or Clearing Member as the case may be, shall be bound by the terms of a Cleared Trade recorded on a Statement. To be valid, a Protest must be submitted to The Exchange by the Member no later than 08:00 West Africa Time on the Business Day following the day of the transaction. Such Protest shall be in writing and shall provide details of the alleged error.

5.10.6 Where Acceptance has or should have taken place on the same day as the Expiration Day of the Trade in question, Protests must be submitted no later than 60 minutes prior to the closing of the clearing system on the Expiration Day.

5.10.7 The Exchange reserves the right to make exceptions to time limits in this rule if strict compliance is operationally impossible, provided that The Exchange shall

communicate such exceptions to Member or Members concerned.

5.10.8 A Member, who wishes to submit a Protest in respect of an incorrectly executed or non-executed Exercise or Settlement, must submit a request to The Exchange no later than 120 minutes after normal opening of the next Business Day after the Exercise or Settlement was carried out, or should have been carried out.

5.10.9 The Exchange will inform the Members concerned how the amendment will be effected.

5.10.10 In its own authority or following a request by a Member, The Exchange may carry out the following measures, as a result of an incorrectly executed or non-executed Exercise or cash Settlement, which a Member has processed or failed to process:

- a. A Member who wishes to submit a Protest in respect of an incorrectly executed or non-executed Exercise or Settlement, must submit a request to The Exchange as soon as the error is discovered, however, no later than after normal opening of the next Business Day after the Exercise or Settlement was carried out.
- b. If, in The Exchange's opinion, a Member's request for Exercise or Settlement has been incorrectly executed, The Exchange may contact Members concerned on its own initiative, even if no Protest has been made.
- c. The Exchange will cancel or amend the Exercise and any Settlements in question if the Members concerned consent to such a measure.

5.10.11 On receipt of a valid Protest, The Exchange shall investigate the matter. The Exchange shall inform the Member submitting the Protest of its decision as soon as possible. Where the Member so requests, The Exchange shall confirm its decision and the reasons therefore in writing as soon as possible after the decision is given. The Exchange shall inform the Designated Clearing House of its decision concerning the Protest and shall arrange for the terms of any Cleared Trades affected by the Protest to be adjusted as required in accordance with its decision. The adjustment of the terms of any Cleared Trades pursuant to a Protest shall be effected by the Designated Clearing House in accordance with the Designated Clearing House Rules.

#### 5.11 Re-Acceptance

5.11.2 A Request for Re-Acceptance requesting the transfer of all or certain specified Trades Cleared in an Account at the Designated Clearing House to the Account of a Member at the Designated Clearing House may be submitted to The Exchange in accordance with this rule.

5.11.3 A Request for Re-Acceptance may be submitted to The Exchange on the grounds that:

- a. the Member has decided to use the services of a Clearing Member and seeks the Re-Acceptance of Trades registered in its Account to the Account of the Clearing Member;
- b. the Member has decided to terminate its existing arrangements with a Clearing Member and seeks the Re- Acceptance of Listed Products/Trades registered in the Account of such Clearing Member pursuant to the execution of Trades by such Member to the Account of the Member or the Account of another Clearing Member whose services the Member has decided to use;
- c. the Cleared Trades to which the request relates were effected on behalf of a Client who has requested that its positions be transferred to another Clearing Member;
- d. the Cleared Trades to which the request relates were effected on behalf of a Member as a Client of a Broker, and the Member has requested that the positions in question be transferred to its Proprietary Account;
- e. the Re-Acceptance is requested following the transfer of the business of the transferor Member to the transferee Member or other similar event; or
- f. that the Acceptance of the Trade in the Account in question was the result of an error;
- g. the Re-Acceptance is requested by a Member for a Trade that has failed to be accepted by the receiving party;
- h. The Re-Acceptance is requested by a Member for an incorrectly Cleared Trade or Transaction.

5.11.4 Requests for Re-Acceptance shall be submitted to The Exchange by submitting a duly completed request in writing. Any request which seeks the Re- Acceptance of a Trade to or from a Client Account shall not be considered unless the Member requesting Re-Acceptance provides satisfactory confirmation that the Clients affected thereby have consented to the Re- Acceptance.

5.11.5 Requests for Re-Acceptance of a Cleared Trade to or from the Account of a Clearing Member (other than an Account used solely for the Acceptance of positions entered into by such Clearing Member on its own Account) shall be submitted by a completed request in writing by the party affected by such request.

5.11.6 A Request for Re-Acceptance shall be submitted within the Business Hours, as set out in the Product Specifications, on the Business Day following the day in question when

the position or Trade was cleared with the Designated Clearing House. The request contains the following details:

- a. the Trades/Transactions to be registered;
- b. the Account of the transferor; and
- c. the Account of the transferee.

5.11.7 A Request for Re-Acceptance can be accepted prior to the specific Listed Product opening for trading; requests must be submitted within Business Hours.

5.11.8 All Requests for Re- Acceptance will be considered at the discretion of The Exchange and the Designated Clearing House and shall, if accepted, result in the Re-Acceptance of the Trade/Transaction in question being affected at the time specified by the Designated Clearing House.

5.11.9 The Exchange will inform the Member which submitted the Request for Re-Acceptance of the decision with regard to the request as soon as practicable following receipt of the Request.

5.11.10 The decision of The Exchange and the Designated Clearing House in this respect shall be final and binding.

5.11.11 Where a Request for Re- Acceptance is accepted, The Exchange shall arrange for the terms of any Cleared Trade affected by its decision to be amended by the Designated Clearing House. Standard fees shall apply to Re-Acceptance of Trades.

## 5.12 Daily Cash Settlement Price

5.12.2 Trades in Futures are subject to Daily Cash Settlement.

5.12.3 Daily Cash Settlement for a Listed Product only occurs on official Business Days for that Listed Product as detailed in The Exchange's Trading Calendars available on The Exchange Website.

5.12.4 Where both the Opening Transaction and the Closing Transaction are Accepted on the same day, cash Settlement between the Designated Clearing House and the Member shall be affected by reference to the difference between the Future Price for the two transactions.

5.12.5 The first Daily Cash Settlement occurs on the first Business Day following the Acceptance of the Futures Trade or soon thereafter. Thereafter, Daily Cash Settlement shall be affected on each Business Day until the Expiration Day in accordance with the provisions of these rules.

- 5.12.6 During the term of a Futures Trade, the Daily Settlement Price shall normally be determined in accordance with the process provided for in the relevant Product Specification.
- 5.12.7 The first Daily Settlement Amount for a Futures Trade shall be determined by reference to the difference between the Future Price for the Futures Trade in question and the Daily Settlement Price for the Futures Trade on that day of the Transaction.
- 5.12.8 The Daily Settlement Amount for a Futures Trade (other than the first Daily Settlement Amount) shall be determined by reference to the difference between the Daily Settlement Price for the Futures Trade on the Business Day in question and the Daily Settlement Price for the immediately preceding Business Day for such Futures Trade.
- 5.12.9 The Daily Settlement Amount shall be payable on the first Business Day following the Day in question in accordance with the instructions of the Designated Clearing House.

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## CHAPTER 6

### DEFAULT

#### 6.1 Application of The Exchange Default Rules

- 6.1.1 In the event of any conflict between The Exchange Default Rules and The Exchange Derivatives Rules, The Exchange Default Rules shall take precedence. The Exchange Derivatives Rules in Chapter 5 shall not be affected by this Chapter 6 unless otherwise specified.
- 6.1.2 Trades entered into by the Defaulting Member will be dealt with under The Exchange Default Rules, save that, where a Clearing Member is declared to be in default by the Designated Clearing House, all Cleared Trades entered into by that Defaulting Member which are affected by the default will be dealt with under the Designated Clearing House Default Rules.
- a. In the event that the Designated Clearing House defaults in respect of a Trade, this shall be dealt with under the Designated Clearing House Default Rules (or such other of the Designated Clearing House Rules which set out the process to be followed in the event of a default by the Designated Clearing House).
  - b. In all cases, in the event that the Designated Clearing House Default Rules are applicable, the Designated Clearing House Default Rules shall take precedence over The Exchange Default Rules.
- 6.1.3 The Exchange may take the actions set out in the remainder of these Exchange Default Rules in respect of a Member in the event of any of the following circumstances (each an **Event of Default**):
- a. the Member fails to discharge any obligation in respect of a Trade, whether under the Membership Agreement, The Exchange Derivatives Rules, any Trade or otherwise;
  - b. the Member notifies The Exchange that it is, or is likely to be, unable to discharge any obligation in respect of a Trade, whether under the Membership Agreement, The Exchange Derivatives Rules or otherwise; or
  - c. The Exchange believes that a Member is, or is likely to be, unable to discharge any obligation in respect of a Trade, whether under the Membership Agreement, The Exchange Derivatives Rules or otherwise.
- 6.1.4 Without prejudice to the generality of Rule 6.1.3 of these Rules, The Exchange may take into account any or all of the following events in determining whether an Event of Default has occurred:

- a. the Member or any of its Affiliates is subject to an Insolvency Event; or
  - b. The Exchange reasonably considers that the financial condition of the Member or any of its Affiliates is such that to allow the Member to continue its operation as such would introduce an unacceptable level of risk to The Exchange or its Members.
- 6.1.5 The Investigation Panel of The Exchange has absolute discretion to determine whether an Event of Default exists and, if it does, whether to take the actions set out in the remainder of The Exchange Default Rules in the circumstances.
- 6.1.6 The Investigation Panel has absolute discretion to determine whether a Transaction, Trade or Back-Off Transaction is a Trade for the purposes of exercising The Exchange's powers under The Exchange Default Rules.
- 6.1.7 Each Member shall notify The Exchange of the occurrence of any event or circumstance set out in Rules 6.1.3 or 6.1.4 of these Rules in relation to the Member.

## **6.2 Actions on a Declaration of Default**

- 6.2.1 If, being satisfied that an Event of Default has occurred, and the Investigation Panel decides to take the actions set out in the remainder of The Exchange Default Rules or The Exchange is required by the SEC or any other regulatory authority under the law, The Exchange shall, as soon as reasonably practicable:
- a. notify such decision in writing to the Defaulting Member (a **Declaration of Default**);
  - b. provide a copy of the Declaration of Default to the SEC; and
  - c. publish a Notice of the Declaration of Default on The Exchange's Website.
- 6.2.2 A Declaration of Default will be given by The Exchange by:
- a. email to the email address provided by the Defaulting Member for services of notices under the Membership Agreement or the email address of any member of the board of directors or any other person specified by the SEC; or
  - b. fax to the fax number provided by the Defaulting Member for service of notices under the Membership Agreement and the Declaration of Default will be deemed to be issued on a confirmed completion of the transmission if given by fax; or
  - c. publication of a Notice on The Exchange's Website.

Notwithstanding the foregoing, The Exchange may give confirmation of a Declaration of Default to the Defaulting Member by personal delivery or recorded or special delivery post in accordance with the Membership Agreement.

6.2.3 Upon The Exchange issuing a Declaration of Default, the Defaulting Member shall:

- a. subject to Rule 6.2.3(c) of these Rules, cease to take any action in respect of its Trades;
- b. not enter into any new Trades; and
- c. comply with any directions of The Exchange.

6.2.4 Upon The Exchange issuing a Declaration of Default, each Member who is not a Defaulting Member shall work cooperatively with The Exchange and comply with any reasonable directions of The Exchange in relation to The Exchange's actions under this Chapter 6.

6.2.5 Upon The Exchange issuing a Declaration of Default or at any time afterwards, The Exchange may terminate the Defaulting Member's membership of The Exchange with immediate effect by giving written notice to the Defaulting Member. The Defaulting Member shall remain subject to Rule 3.13.3 of these Rules.

### **6.3 Calculation and certification of net amount**

6.3.1 Upon The Exchange issuing a Declaration of Default, The Exchange shall seek to discharge the Defaulting Member's rights and liabilities (excluding any rights and/or liabilities in respect of Margin or which arise out of a failure to perform an Affected Trade) under each of the Affected Trades with each Counterparty to an Affected Trade.

6.3.2 For the purposes of discharging a Defaulting Member's rights and liabilities, The Exchange may take any of the following actions or any combination of the following actions:

- a. directing that any Affected Trade is terminated in accordance with the terms of the agreement between the Defaulting Member and its Counterparty;
- b. directing that any Affected Trade is settled by setting it off against another Trade on the same terms save as to price;
- c. directing that any Affected Trade is closed out by a Clearing Member making a Transaction on the same terms and, if appropriate, it being allocated to the Defaulting Member or by reversal of the relevant entries in the books and records of the Defaulting Member at a price determined by The Exchange;

- d. subject to the Designated Clearing House agreeing to effect such transfer, facilitating the transfer of any Affected Trade by directing that the Affected Trade be closed out and that a Transaction on the same terms be entered into between the relevant Clearing Member and another Clearing Member at a price determined by The Exchange;
- e. directing that any option granted by an Affected Trade be exercised or shall expire without being exercised;
- f. directing that any Affected Trade which is to be cash settled which is open at the close of trading on the last Business Day for such Affected Trade be settled by payment of the Settlement Price;
- g. directing any Affected Trade under the terms of which delivery of the underlying is required to be made be settled in accordance with its terms;
- h. auctioning any of the Defaulting Member's open positions under any Affected Trades;
- i. taking any other action to achieve the purpose of Rule 6.3.1 of these Rules,

In each case, on such terms as The Exchange shall determine and the rights and liabilities of the Defaulting Member referred to in Rule 6.3.1 of these Rules shall include all rights and liabilities arising in consequence of any such action.

6.3.3 Following the completion of all actions taken by The Exchange under Rule 6.3.2 of these Rules, all rights and liabilities (excluding any rights and/or liabilities in respect of margin or which arise out of a failure to perform an Affected Trade) of the Defaulting Member and its Counterparty to an Affected Trade shall be discharged and the Defaulting Member or its Counterparty (as the case may be) shall be liable to pay the final settlement amount (if any) which is determined by The Exchange to be payable by one party to the other in respect of such Affected Trade.

6.3.4 The final settlement amount (if any) in respect of an Affected Trade shall be determined by The Exchange. Without prejudice to the generality of the foregoing, the final settlement amount of an Affected Trade:

- a. which has been closed out in accordance with Rule 6.3.2(b) of these Rules, shall be determined by reference to the difference (if any) between the price of the unsettled Affected Trade and the price at which the relevant entries in the books of account were directed to be reversed;
- b. which has been the subject of a direction pursuant to Rule 6.3.2(e) of these Rules, shall be the Settlement Price; and

- c. which, pursuant to a direction under Rule 6.3.2(f) of these Rules, has been performed in whole or part, shall be determined having regard to such performance and to its terms,

provided that if, pursuant to the terms of any agreement between the Defaulting Member and its Counterparty, the rights and obligations of the parties have become or been converted to an obligation to pay and a right to receive a single liquidated sum, The Exchange may determine that such sum shall be the final settlement amount in respect of one or more Affected Trades.

- 6.3.5 Following the calculation of the final settlement amount (if any), The Exchange shall;
- a. subject to Rule 6.3.7 of these Rules, aggregate all final settlement amounts (if any) payable by the Defaulting Member to a Counterparty;
  - b. subject to Rule 6.3.7 of these Rules, aggregate all final settlement amounts (if any) payable to the Defaulting Member from a Counterparty; and
  - c. set-off the two aggregated amounts against one another, so as to produce a single net sum due between the Defaulting Member and a Counterparty.
- 6.3.6 The Exchange shall certify the single net sum resulting from the calculations pursuant to Rule 6.3.5 of these Rules as being the amount payable between the Defaulting Member and the Counterparty in respect of all the Affected Trades between them (subject to Rule 6.3.7 of these Rules). Such certificate shall be conclusive.
- 6.3.7 Subject to the provisions of this Rule 6.3.7, the process set out in Rules 6.3.1 to 6.3.3 of these Rules shall be applied separately in respect of:
- a. Affected Trades to which the Defaulting Member or its Counterparty to the Affected Trade is a segregated client and related rights and liabilities; and
  - b. all other Affected Trades between such Defaulting Member and such Counterparty and related rights and liabilities.

The Exchange shall be entitled to assume that neither the Defaulting Member nor the Counterparty to any Affected Trade is a segregated client. Either the Defaulting Member or the Counterparty may notify The Exchange in writing that such assumption is incorrect, and subject to the notifying party identifying for which of the Affected Trades either it or the counterparty should be treated as a segregated client, The Exchange shall separately apply the processes set out in Rules 6.3.1 to 6.3.3 of these Rules in respect of all such identified Affected Trades.

- 6.3.8 For the purposes of Rule 6.3.7 of these Rules, a person is a segregated client in respect of any Affected Trade entered into by that person if the monies received by the relevant Member as collateral in respect of that Trade are held in a Client Account or

would be so held were they not regarded in accordance with those rules as immediately due and payable to the Member for its own account.

- 6.3.9 The Exchange shall not be obliged to include in its actions pursuant to Rule 6.3.1, nor its calculations in accordance with Rules 6.3.4 and 6.3.5 of these Rules any Affected Trade of which it does not have actual notice within two (2) weeks of the date of the Declaration of Default.
- 6.3.10 For the avoidance of doubt, the parties to an Affected Trade shall remain obliged to discharge those of their rights and liabilities under any Affected Trades that are not discharged under The Exchange Default Rules, including any rights or liabilities in respect of Margin or which arise out of a failure to perform a Trade.
- 6.3.11 The Exchange may make any currency conversions which it considers appropriate for the purposes of The Exchange Default Rules at such rates as The Exchange may reasonably determine.
- 6.3.12 The Exchange shall notify the Defaulting Member or a relevant office holder acting in relation to the Defaulting Member of the actions taken in relation to the Defaulting Member under The Exchange Default Rules.

#### **6.4 Notification to other Members and cooperation with the regulatory authorities**

- 6.4.1 The Exchange may notify the Members that are not Defaulting Members of the actions taken under The Exchange Default Rules at various other points in the process.
- 6.4.2 The Exchange may share information (including information received from or about any Member), and otherwise cooperate, with any regulatory authority, exchange or the Designated Clearing House and any office holder acting in relation to the Defaulting Member in relation to the issue of a Declaration of Default.

#### **6.5 Costs**

- 6.5.1 The Defaulting Member shall indemnify The Exchange against any and all costs, charges and expenses suffered or incurred by The Exchange in taking any action under The Exchange Default Rules.

## CHAPTER 7

### LISTING OF DERIVATIVES PRODUCTS

- 7.1 The Exchange shall have the power to:
- add Products to or remove Products from the list of derivatives kept in terms of these Exchange Derivatives Rules, or suspend Products from such list;
  - Impose new conditions on or amend the existing conditions of such Listed Products.
- 7.2 Members may also request for a derivative to be admitted to trading on the Order Book with the parameters described in the relevant Product Specifications. Members shall provide the following information:
- the Underlying
  - whether it is a Future or an Option (Call or Put)
  - Option Type (where applicable)
  - the Expiration Month
  - the Strike Price (for Options only)
  - Settlement style (if applicable)
  - Tick size (if applicable)
  - Tick value (if applicable) or any information requested by The Exchange.
- 7.3 The Exchange shall notify all members of the approval of an application in terms of this Exchange Derivative Rule, and shall stipulate a date for the coming into operation of an addition, removal or suspension of derivative or new or amended conditions relating to derivative.
- 7.4 In the event of a delisting of the Underlying, The Exchange will take appropriate measures to;
- Order the delisting and early termination of the Listed Product to guarantee orderly exchange trading with regards to the concerned derivatives transactions.
  - The NSE shall determine the price of the derivatives transaction to be used for settlement.
  - Notify Members with regards to delisting and early termination of derivatives Products and the determined settlement price of the derivatives transactions.
- 7.5 The Exchange may, with regards to the trading of derivatives Products;
- Suspend such trading if an orderly exchange trading appears to be temporarily threatened or if such suspension appears to be appropriate in order to protect the public.
  - Discontinue such trading, if it appears possible that an orderly exchange trading can no longer be ensured.

- c. Notify Members on the measures taken with regards to the suspension and discontinuation of trading.

EXPOSURE DRAFT



**CHAPTER 8**

**COMPLAINTS AND ENFORCEMENT**

- 8.1 Where The Exchange believes there has been a breach of these Exchange Derivatives Rules by a Member, The Exchange may commence disciplinary action against such Member in accordance with The Exchange Adjudicatory Process.

EXPOSURE DRAFT