



RULEBOOK OF THE NIGERIAN STOCK EXCHANGE

AMENDMENTS TO THE INVESTORS' PROTECTION FUND RULES

CHAPTER 10: THE INVESTORS' PROTECTION FUND RULES, 2013¹

Legend: additions underlined, deletions ~~struck through~~

Investors' Protection Fund Rules

The Board of Trustees of The Nigerian Stock Exchange's Investors' Protection Fund ("The Board") hereby makes the following Rules to govern the operations and effective management of the Investors' Protection Fund, pursuant to the powers conferred on it by the Investments and Securities Act, 2007 ("ISA").

PART 1 PRELIMINARY

Rule 26.1: Establishment of the Fund

At a meeting held on 29 January 2012, the National Council of The Nigerian Stock Exchange ("The Exchange") resolved to take the necessary steps to establish a fund to be known as the Investors' Protection Fund pursuant to the provisions of the ISA.

Rule 26.2: Citation and Commencement

These Rules shall be cited as "the Investors' Protection Fund Rules, 2013" and shall come into effect following approval of the Rules by the National Council of The Exchange and the Securities and Exchange Commission (the "Commission").

¹ Rule Making History

1. The proposed Amendments were presented to the Rules and Adjudication Committee of Council (RAC) at the RAC Meeting of 10 November 2017, and approved for exposure to stakeholders for comments;
2. The proposed Amendments were exposed for stakeholders' comments from 17 November to 18 December 2017;
3. The RAC at its Meeting of 28 February 2018, approved the proposed Amendments for submission to the National Council of The Exchange (Council);
4. The Council approved the proposed Amendments at its Meeting of 28 March 2018 for submission to the Securities and Exchange Commission (SEC);
5. The SEC approved the Rules on 5 December 2018.



PART 2: MANAGEMENT OF THE FUND

Rule 26.3 Governance and Management of the Fund ~~Power of Management~~

(a) The Board shall consist of a maximum of nine (9) members to be drawn as follows:

- (1) a representative from the Dealing Member Firms;**
- (2) a representative from The Exchange;**
- (3) a representative from the Central Securities Clearing System Plc.;**
- (4) a representative from the Securities and Exchange Commission;**
- (5) one person representing the Institutional Investors;**
- (6) a representative of the Institute of Capital Market Registrars;**
- (7) one (1) person with proven integrity and knowledgeable in the capital market matters;**
- (8) one (1) person representing registered shareholders association; and**
- (9) one (1) person who shall be a legal practitioner knowledgeable in capital market matters.**

(b) Members of the Board shall be appointed by The Exchange, subject to the approval of the Securities and Exchange Commission (SEC). The appointment shall be for an initial term of four (4) years.

(c) Subject to The Exchange's discretion and on the approval of the SEC, a Member may be re-appointed for a further term of four (4) years and no more.

(d) A member of the Board shall cease to be a member if-

- (1) his term of office expires;**
- (2) he resigns from his office by a written notice addressed to the Chairperson or Secretary of the Fund;**
- (3) before the expiration of his tenure, he ceases to be a member of the body he represents on the Board of Trustees;**
- (4) his membership on the Board of Trustees is withdrawn by the body he represents;**



- (5) he is guilty of any crime involving dishonesty or sanctioned for misconduct by any professional body or association; or convicted of a criminal offence involving dishonesty by a Court of competent jurisdiction;
- (6) on a resolution of the other members of the board of trustees supported by at least two-thirds of its membership, is adjudged to be engaged in activities prejudicial to or inconsistent with his position as a member of the board of trustees;
- (7) He becomes insane or of unsound mind or incapable of carrying out his/her duties as a result of any illness; or
- (8) He is an undischarged bankrupt.

~~(a)~~ (e) The Board shall be responsible for the management of the Investors' Protection Fund established pursuant to the ISA (the "Fund") and shall hold, manage and apply the Fund in accordance with the provisions of these Rules and the provisions of the ISA.

~~(b)~~ (f) For the purpose of managing the Fund, the Board may by resolution

- (1) engage such number of staff as it may deem necessary for the efficient performance of its functions;
- (2) set up sub-committees to assist in the discharge of its functions, in particular for the purpose of determining the eligibility of an investor to receive compensation and the amount payable; and
- (3) appoint a management sub-committee of not less than 3 and not more than 5 persons.

~~(c)~~ (g) The Board may by resolution delegate to any sub-committee appointed under subsection 2 above all or any of its powers.

~~(d)~~ (h) Any power, authority or discretion so delegated by the Board shall be exercised by members forming a majority of the sub-committee as if that power, authority or discretion had been conferred on a majority of the members of the sub- committee.

~~(e)~~ (i) Any such delegation by the Board may at any time in like manner be rescinded or varied.

~~(f)~~ (j) The Board may at any time remove any member of a sub-committee appointed by it under this section and may fill any vacancy in the sub-committee howsoever arising.

~~(g)~~ (k) A decision of the sub-committee of the Board shall be of no effect until it is confirmed or ratified by the Board.



Rule 26.4 Payments into the Fund

(a) There shall be paid into the Fund the following:

(1) Contributions from Dealing Members firms which shall comprise of:

(A) A mandatory Initial Payment of the sum of N1,000,000.00 (One Million Naira) prior to the Dealing Members firm's acquisition of a Dealing Membership License from The Exchange, provided that the value of this mandatory initial payment may be changed from time to time as determined by the Board, subject to the approval of The Exchange;

(B) An annual Payment of an amount to be determined by the Board from time to time, subject to the approval of The Exchange;

(C) A mandatory Annual Premium calculated in accordance with the following formulae:

The following shall be used to calculate the percentage value of each Dealing Members firm's ratio of customers' securities and funds to the Dealing Members firm's assets from the data available from the Dealing Members firm's disclosures, subject to the approval of The Exchange:

Total customer securities and funds managed by the Dealing Member firm

Dealing Member firm's assets

X 100%

Once the ratio of customers' securities and funds to the Dealing Member firm's assets has been calculated as set out above, the table below shall be used to determine the ratio of customers' securities and funds to the Dealing Member firm's assets risk factor associated with the Dealing Member firm and the amount payable for each risk factor range shall be an amount to be determined by the Board from time to time:

Bands	Capital Adequacy Ratio	Risk Factor	Amount Payable
1	> 70%	High	
2	40 – 69%	Medium	
3	< 40%	Low	



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- (D) Periodic Payment of an amount as may be determined by the Board from time to time in accordance with Section 208(b) of the ISA to be applied towards making up any deficiency in the event that the Fund falls below the minimum amount approved for the Fund;
- (2) An amount from erring Dealing Member firms equal to a percentage of penalties/fines paid by such Dealing Member firms to The Exchange for contravening capital market Rules, Regulations and Market Practices, such percentage shall to be determined by The Exchange from time to time;
- (3) The interest and profits accruing from the investment of the Fund;
- (4) All monies paid to the Fund in accordance with the provisions of the ISA;
- (5) All monies recovered by or on behalf of the Board in the exercise of any right of action conferred by the ISA;
- (6) All monies paid by an insurer pursuant to any contract of insurance or indemnity entered into by a Dealing Member firm or the Board of Trustee;
- (7) Any monies whether in form of grants, donations or subventions received from The Exchange or other institutions and persons;
- (8) Monies received as income from, or the proceeds of sale of any investments; and
- (9) Monies borrowed by the Board from The Exchange for the purposes of the Fund.
- (10) Payment on transactions by Dealing Member firms of 1bp or N100.00 per N1 million on both sides, subject to the approval of The Exchange.
- Provided that in the appropriate circumstances, the Board may in its sole discretion ~~place a moratorium on~~ waive, ~~reject, or refuse to receive~~ funding from any of the sources of funds identified in Clause 26.4(a)(1), (2) and (10).
- (11) All other monies received by the Fund pursuant to the provisions of the ISA for the furtherance of its aims and objectives.
- (b) The Board shall not apply the Funds towards any payment except by the authority of an ordinary resolution of the Board or a written resolution signed by all the members of the Board approving such payment.



Rule 26.5 Fund to be kept in Separate Bank Account

All monies forming a part of the Fund shall be paid or transferred into such custodial account or separate bank account within the Federal Republic of Nigeria as may be determined by the Board from time to time with The Exchange's prior approval pending the investment or application of such monies in accordance with the provisions of the ISA.

Rule 26.6 Payments out of the Fund

(a) There shall from time to time be paid from the Fund

- (1) Monies required by the Board for the payment of compensation to investors, in accordance with these Rules;
- (2) Monies required for the arrangement, service or repayment of loans obtained by the Board from The Exchange for the purposes of the Fund;
- (3) Premiums on policies of insurance taken out by the Board for the purposes of the Fund;
- (4) All expenses incurred by the Board in its administration and management including expenses arising from professional services in establishing the Fund, professional fees and expenses of the auditor to the Fund, expenses of the staff of the Fund, professional fees and expenses of advisers appointed by the Board from time to time to render services to the Board or Fund; and
- (5) Such other monies as are permissible to be paid may be payable out of the Investors' Protection Fund in accordance with the provisions of the ISA.

(b) Payments of compensation out of the Fund shall be in monetary form only.

Rule 26.7 Indemnity

The Board and any of its members, officers or servants shall be indemnified out of the Fund against any liability for anything done or omitted in the discharge of the functions of the Board under these Rules, unless such acts or omissions are in bad faith; and any amount payable by virtue of these Rules are to be treated as management costs for the financial year in which it is paid.

Rule 26.8 Annual Report

(a) The Board shall submit to the Commission and The Exchange an Annual Report on the activities and administration of the Fund, covering each successive financial year, and made



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within three (3) months of the end of the year reported on provided that the timeline for submission of the Annual Report to the Commission shall not apply to the Fund's first year of operation.

- (b) The Annual Report shall *inter alia* include the following:
- (1) Financial statements prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS), the ISA, the Companies and Allied Matters Act, and the Financial Reporting Council of Nigeria Act showing the movements in the Fund during the year and a statement of assets and liabilities of the Fund at the end of the year;
 - (2) A statement indicating all payments into the Fund and payments out of the Fund during the year;
 - (3) A statement by the Chairman of the Board highlighting the activities of Fund covering the relevant financial year.
 - (4) A report of the Board's Auditors.
- (c) The Board shall ensure that The Exchange's auditors are not appointed as the auditors of the Fund.
- (d) The Board shall endeavor to ensure that all Annual Reports of the Fund which have been submitted to the Commission and The Exchange shall be displayed on The Exchange's website or such other website as the Board may decide.

Rule 26.9 Quarterly Reports

The Board shall also make quarterly reports to Exchange, giving details of the exercise of its powers and functions.

Rule 26.10 Report on Particular Events

The Board shall notify the Commission and The Exchange in writing of significant events occurring in the process of administering the Fund.

Rule 26.11 Records

The Board shall keep records which show and explain the transactions of the Fund and shall:

- a) disclose the financial position of the Fund at any time and enable the Board to make reports required by these Rules.
- b) maintain such records for a minimum period of seven (7) years.



Rule 26.12 Public Enlightenment

The Board may from time to time disseminate information to the public on the operation of the Fund in such manner as it deems fit.

PART 3 COMPENSATION OF INVESTORS

Rule 26.13 Verification of Claims

In respect of claims submitted to The Exchange by persons who allege that they have suffered pecuniary losses as provided under Section 212(1) of the ISA, The Board shall make payment based on verified claims in accordance with these Rules and the provisions of the ISA.

Rule 26.14 Payment of Compensation

- (a)** The Board shall pay compensation where it is satisfied, on the basis of evidence provided by an investor or Dealing Member or which is available to it from other sources, that:
- (1) the investor has a claim against a Dealing Member;
 - (2) the investor has duly applied for settlement of its claim from the Dealing Member;
 - (3) the Dealing Member is unable to satisfy the claim within a reasonable period;
 - (4) the investor has exhausted The Exchange's internal complaint resolution procedure;
 - (5) the investor has duly applied for compensation from the Fund; and
 - (6) The Exchange has verified the claim.
- (b)** An application for compensation may be rejected if:
- (1) the claim arose from an event described in Section 212(1) of the ISA, which occurred before a time as may be decided by the Board from time to time; or
 - (2) it is not promptly made and in any event within the periods stipulated in the ISA; or
 - (3) the investor is responsible for, or has directly or indirectly profited from, events relating to the Firm's business which gave rise to the Member Firm's financial difficulties.
- (c)** In determining whether the investor is responsible for, or has directly or indirectly profited from, events relating to the Firm's business which gave rise to the Dealing Member Firm's financial difficulties, the Board shall take into account all prevailing circumstances, including but not limited to the following matters:
- (1) whether there is a decision by a body of competent jurisdiction indicating that the investor is responsible for, or has directly or indirectly profited from events relating to the Dealing Member Firm's business which gave rise to the Dealing Member Firm's financial difficulties;
 - (2) whether the investor has admitted that it is either is responsible for, or has directly or indirectly profited from events relating to the Dealing Member Firm's business which gave rise to the Dealing Member Firm's financial difficulties;



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- (3) whether there is evidence provided by the Dealing Member Firm or which is available to the Board from other sources that the investor is responsible for, or has directly or indirectly profited from events relating to the Dealing Member Firm's business which gave rise to the Dealing Member Firm's financial difficulties; and
- (4) such other matters similar to the foregoing.

Rule 26.15 Multiple Claims

- (a) Where a person claims in a double capacity for himself and as the Personal Representative of a deceased investor, he is to be treated in respect of the representative claim as if he were the deceased investor without prejudice to his own personal claim, with sufficient evidence of supporting documentation to the claim on behalf of the deceased investor, including but not limited to a death certificate, letters of administration, wills, executors authorization etc.
- (b) Where a person claims for himself and as a trustee, he is to be treated in respect of the latter claim as a different person.
- (c) Where two or more persons in partnership have a joint beneficial claim, then, the claim is treated as the claim of the partnership, otherwise each of them would be taken to have equal shares in the claim unless the contrary is proved to the satisfaction of the Board.
- (d) Where an agent has a claim for one or more principals, the principal or principals are to be treated as having the claim, to the exclusion of the agent.

Rule 26.16 Amount of Compensation

- (a) The maximum compensation payable to an investor who has suffered a loss shall be an amount that is determined by the Board from a written policy from time to time; and where the loss is less than the maximum amount fixed by the Board at any given time, the investor may be paid the full amount of the loss, less any amount or value of all monies or other benefits received or receivable by him from a source other than the Fund in reduction of the loss.
- (b) An investor is entitled to no more than one claim for compensation where he has numerous claims against the IPF in respect of the same Dealing Member Firm.
- (c) Notwithstanding the above, the amount of compensation may be reviewed by the Board on a biennial basis or as otherwise agreed by the Board as the need arises from time to time. In determining the maximum amount of compensation payable, the Board shall take into account circumstances prevailing in the capital market.



Rule 26.17 Adjusted Payments

- (a)** Where the Board is satisfied that in principle compensation is payable but considers that immediate payment in full would not be prudent having regard to other applications for compensation, or to any uncertainty as to the amount of the investor's overall net claim, it may determine to pay an appropriate lesser sum in final settlement or to make a payment on account.
- (b)** The Board may also determine to make a payment on account or to pay a lesser sum where the investor has any prospect of recovery in respect of the claim from any third party or through an application for compensation to any other person or authority.
- (c)** The Board may determine to reduce the compensation which would otherwise be payable to an investor in circumstances where it is satisfied that the investor is partly to blame for the loss which he has suffered.

Rule 26.18 Recoveries and Subrogation

- (a)** The Board upon the payment to any investor shall be subrogated to all rights of the investor against the Dealing Member concerned to the extent of such payment; and such subrogation shall include the right on the part of the Board to recover an equivalent amount from the Dealing Member or from the proceeds of the sale of the assets of such Dealing Member.
- (b)** Any amount received by the Board by virtue of this Rule shall be paid into the Fund.

Rule 26.19 Protection for Whistle-blowers

The Board shall establish and maintain a system to receive disclosures in respect of contraventions as provided in the ISA and act on them, where appropriate.

Rule 26.20 Code of Conduct

The Code of Conduct for the members of the Board shall be deemed to be incorporated into and made a part of these Rules.

Rule 26.21 Investment Policy

The Investment Policy of the Fund shall be determined by the Board from time to time, subject to the approval of The Exchange.