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**AMENDMENTS TO RULE 15.29: PRICING METHODOLOGY**  
**RULEBOOK OF THE EXCHANGE, 2015 (DEALING MEMBERS' RULES)**

**INTERPRETATIVE GUIDANCE**

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**1. INTRODUCTION:**

On March 14 2017, The Exchange received the approval of the Securities and Exchange Commission (“Commission”) to the amendments to Rule 15.29: Pricing Methodology, Rulebook of The Exchange, 2015 (Dealing Members’ Rules), (“the Pricing Methodology Rule” or “the Rule”).<sup>1</sup> The amendments to the Pricing Methodology Rule specifies the revised minimum pricing increments and minimum quantity traded that will change the published price of equity securities listed on The Exchange, as well as creates an additional group classification for price movements of equity securities. The Rule shall become effective on Monday, 29 January 2018.

The amended stratification of minimum price movements and quantity traded aims at improving liquidity, narrowing spreads, and ensuring that all price improving (up/down) transactions are material, making the market more efficient for all participants.

**2. THE AMENDMENTS:**

Following the amendments to the Pricing Methodology Rule, the minimum pricing increments and minimum quantity traded will no longer be the one-size-fits-all of One Kobo (~~₦~~0.01k) which has being used in the market for all equity securities, but now re-standardized and stratified according to the revised group classifications.

**(a) Group Classifications:**

- (i) **Group A:** shall consist of equities that are priced at One Hundred Naira (~~₦~~100.00) per share or above, for at least four (4) of the last six (6) months, or new security listings that are priced at One Hundred Naira (~~₦~~100.00) or above, at the time of listing on The Exchange.
- (ii) **Group B:** shall consist of equities that are priced at Five Naira (~~₦~~5.00) per share or above, but less than One Hundred Naira (~~₦~~100.00) per share for at least four (4) of the last six (6) months, or new security listings that are priced at Five Naira (~~₦~~5.00) per share or above, but less than One Hundred Naira (~~₦~~100.00) per share at the time of listing on The Exchange.

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<sup>1</sup> The text of the Commission approved Rules can be viewed on The Exchange’s website by following this link:  
[http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Amendments%20to%20Dealing%20Members%20Rules%20\(Part%20XI\)%20-%20Pricing%20Methodology.pdf](http://www.nse.com.ng/regulation-site/Dealing%20Members%20Rules/Amendments%20to%20Dealing%20Members%20Rules%20(Part%20XI)%20-%20Pricing%20Methodology.pdf)

- (iii) **Group C:** shall consist of equities that are priced at One Kobo (~~₦~~0.01) per share or above, but below Five Naira (~~₦~~5.00) per share for at least four (4) of the last six (6) months, or new security listings that are priced at One Kobo (~~₦~~0.01) per share or above, but below Five Naira (~~₦~~5.00) per share at the time of listing on The Exchange.

(b) **Price Movements:**

The minimum quantity that is required to be traded to change the published price of an equity security shall be as follows:

- (i) Group A: Ten Thousand (10,000) units.
- (ii) Group B: Fifty Thousand (50,000) units.
- (iii) Group C: One Hundred Thousand (100,000) units.

(c) **Tick Size:**

The minimum price movement that equities shall trade are as follows:

- (i) Group A: Ten (10) Kobo.
- (ii) Group B: Five (5) Kobo.
- (iii) Group C: One (1) Kobo.

**3. THE NEW STRUCTURE OF PRICING METHODOLOGY RULE:**

The new price groups, price limits, tick sizes, and minimum trades quantity required to change prices for equity securities traded on The Exchange are as shown in the table below:

Group	Price Movements (Minimum Quantity)	Tick Size ( <del>₦</del> )	Price Range Trading Period
A	10,000	<del>₦</del> 0.10	<del>₦</del> 100.00 or above, for 4 of the last 6 months, or new security listings priced at <del>₦</del> 100.00 or above at the time of listing
B	50,000	<del>₦</del> 0.05	<del>₦</del> 5.00 or above but lower than <del>₦</del> 100, for 4 of the last 6 months, or new security listings priced at <del>₦</del> 5.00 or above but lower than <del>₦</del> 100 at the time of listing
C	100,000	<del>₦</del> 0.01	<del>₦</del> 0.01 or above but lower than <del>₦</del> 5, for 4 of the last 6 months, or new security listings priced at <del>₦</del> 0.01 or above but lower than <del>₦</del> 5 at the time of listing

#### **4. ORDER ENTRY AND EXECUTION**

**(a) Pre-Open Session:**

During the Pre-Open Session, an indicative opening price to the nearest tick shall be published that will be updated as orders are entered, adjusted, or cancelled. Such indicative opening price shall not be binding on the Market Maker, who may adjust the opening price in permissible ticks (i.e. the tick size: Group A: ₦0.10k, Group B: ₦0.05k and Group C: ₦0.01k depending on the group that the security falls under) to reflect actual or anticipated supply or demand in the Opening Auction or during the continuous trading session. Indicative prices shall be limited to the nearest permissible tick for each equity's price, plus or minus five per-cent (5%) from the previous day's closing price. See hypothetical examples in the Permissible Tick Size Guide Box.

**(b) Pre-Open Adjust Session:**

At the close of the Pre-Open Adjust Session, the system shall recalculate the reference price to the nearest permissible tick based on the price set in the Opening Auction. After the reference price has been reset, price fluctuations during the continuous trading session shall also be limited to the nearest permissible tick for each equity's price, plus or minus five per-cent (5%) from the reset reference price. See hypothetical examples in the Permissible Tick Size Guide Box.

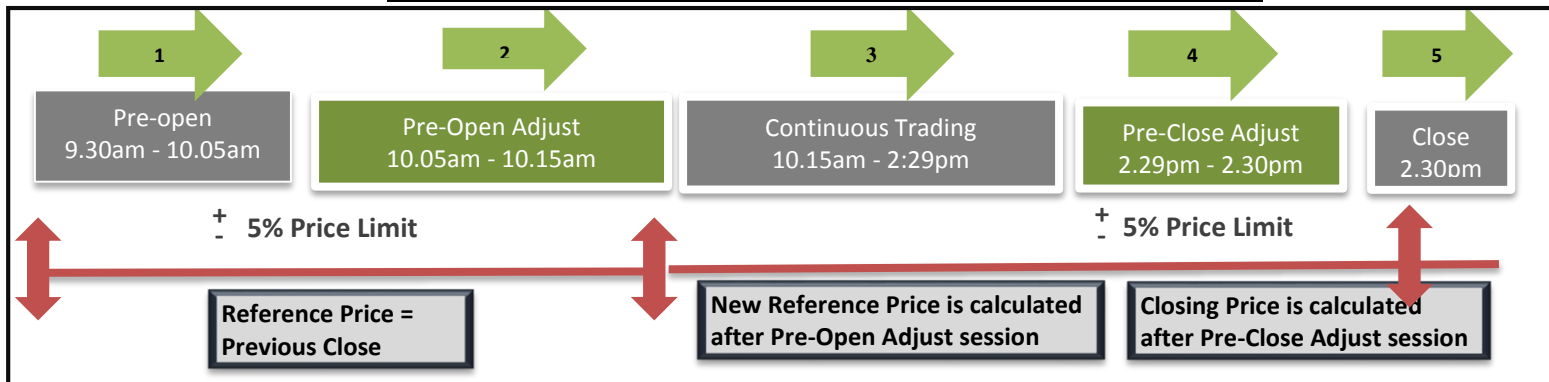
**(c) Continuous Trading:**

During the Continuous Trading session, Dealing Members, including Market Makers are expected to place or change orders in permissible ticks.

**(d) Pre-Close Adjust and Closing Period:**

All open orders, Pre-Close orders and Market Maker interest that were eligible for execution at the close of the market shall be matched at permissible tick of the closing price.

**Permissible Tick-Size Guide Box**  
**Current Market Structure and Published Price Determination**



**Current Upward and Downward Daily Price Movement Structure**

Order No.	Group	Previous Close Price (N)	Reference Price at Pre-Open (N)	Price Limit at Pre-Open (+ or - 5%) (N)	Reference Price at Continuous (N)	Price Limit at Continuous (+ or - 5%) (N)
1	A	110.35	110.35	115.87 or 104.83	115.87 or 104.83	121.66 or 99.59
2	B	15.47	15.47	16.24 or 14.70	16.24 or 14.70	17.05 or 13.97
3	C	4.55	4.55	4.78 or 4.32	4.78 or 4.32	5.12 or 4.10

**Example of expected Upward and Downward Daily Price Movement Structure on the effective date of the amendments to the Pricing Methodology Rule**

Order No.	Group	Previous Close Price (N)	Reference Price at Pre-Open (N)	Price Limit at Pre-Open (+ or - 5%) (N)	Reference Price at Continuous (N)	Price Limit at continuous (+ or - 5%) (N)
1	A	110.35	<b>110.4</b>	115.9 or 104.9	115.9 or 104.9	121.7 or 99.7
2	B	15.47	<b>15.50</b>	16.30 or 14.70	16.30 or 14.70	17.12 or 13.97
3	C	4.55	<b>4.55</b>	4.78 or 4.32	4.78 or 4.32	5.12 or 4.10

• **Note:**

*These amendments to the Pricing Methodology Rule will be applicable in the New Market Structure when implemented.*

**5. PUBLISHED PRICE DETERMINATION:**

The Reference Price of equities in Group A and B during the Pre-Open session of the market will be rounded (up or down) to the nearest permissible tick as shown in Permissible Tick Size Guide Box by the X-Gen (The Exchange’s trading engine) on the effective date of the amendments to the Pricing Methodology Rule, i.e., 29 January 2018. The market impacts of the rounding to the nearest tick for equities at the Pre-open session, have been analysed and considered insignificant to aggregate market statistics.

However, to change the Published Prices (Open, High, Low and Close) at different stages of the market will be subject to the new price tick and minimum quantity size tests as follows:

Group	Price Movements (Minimum Quantity)	Tick Size (₦)
A	10,000	₦0.10
B	50,000	₦0.05
C	100,000	₦0.01

Traders will only be able to input their Orders at permissible ticks as the X-Gen will not accept Orders outside permissible ticks relating to equities in Group A and B.

**(a) Scenario 1 for Group A:**

Assuming the following trades occurred on XYZ Plc equities on The Exchange following the effective date of the amendments to the Price Methodology Rule,

Trade Sequence	Traded Price (₦)	Trade Quantity
1 <sup>st</sup>	101.10	15,000
2 <sup>nd</sup>	102.20	9,000
3 <sup>rd</sup>	103.30	11,000
4 <sup>th</sup>	104.40	10,000

Since the traded price is greater than ₦100 per share, the above security belongs to Group A and its minimum price increment is Ten kobo (₦0.10 kobo) in line with the amended Rule. So in order to update the Open, High, Low, and Close (OHLC) values, a minimum trade quantity of 10,000 units should be traded on this security.

The 1<sup>st</sup> trade’s quantity is more than 10,000 units, this will set the Open price for this security. If the 1<sup>st</sup> trade is cancelled, then in setting the Open price, the 2<sup>nd</sup> trade will not be considered by the trading engine given that the traded quantity is less than 10,000 units. The Open price will be set by the 3<sup>rd</sup> trade with a traded quantity of more than 10,000units.

**(b) Scenario 2 for Group B:**

Assuming the following trades occurred on MNO Plc equities on The Exchange following the effective date of the amendments to the Price Methodology Rule,

Trade Sequence	Traded Price (₦)	Trade Quantity
1 <sup>st</sup>	5.55	50,000
2 <sup>nd</sup>	7.50	45,000
3 <sup>rd</sup>	8.45	60,000
4 <sup>th</sup>	9.30	70,000

Since the traded price is greater than ₦5 but less than ₦100 per share, the above security belongs to Group B and its minimum price increment is five kobo (₦0.05 kobo) in line with the amended Rule. So in order to update the Open, High, Low, and Close (OHLC) values, a minimum trade quantity of 50,000 units should be traded on this security.

The 1<sup>st</sup> trade's quantity is 50,000 units, this will set the Open price for this security. If the 1<sup>st</sup> trade is cancelled, then in setting the Open price, the 2<sup>nd</sup> trade will not be considered by the trading engine given that the traded quantity is less than 50,000 units. The Open price will be set by the 3<sup>rd</sup> trade with a traded quantity of more than 50,000 units.

**(c) Scenario 3 for Group C:**

Assuming the following trades occurred on ABC Plc equities on The Exchange following the effective date of the amendments to the Price Methodology Rule,

Trade Sequence	Traded Price (₦)	Trade Quantity
1 <sup>st</sup>	3.89	100,000
2 <sup>nd</sup>	3.99	80,000
3 <sup>rd</sup>	4.01	110,000
4 <sup>th</sup>	4.90	70,000

Since the traded price is greater One Kobo (₦0.01) but less than ₦5 per share, the above security belongs to Group C and its minimum price increment is One kobo (₦0.01 kobo) in line with the amended Rule. So in order to update the Open, High, Low, and Close (OHLC) values, a minimum trade quantity of 100,000 units should be traded on this security.

The 1<sup>st</sup> trade's quantity is 100,000 units, this will set the Open price for this security. If the 1<sup>st</sup> trade is cancelled, then in setting the Open price, the 2<sup>nd</sup> trade will not be considered by the trading engine given that the traded quantity is less than 100,000 units. The Open price will be set by the 3<sup>rd</sup> trade with a traded quantity of more than 100,000 units.

## 6. EXPECTATIONS

### (a) **Broker-Dealers (Traders):**

From the effective date of the amendments to the Pricing Methodology Rule, Broker-Dealers will be required to ensure that all open priced orders in equity securities comply with the new price increment requirements for each Group. Open orders, including Good Till Date orders outside permissible increments will be regarded as “Private” under Order Status by the trading engine. This implies that Broker-Dealers should either re-price their open Orders, including Good Till Date orders or withdraw the Order being priced in an impermissible increment before the effective date. Subsequent orders from the effective date must be priced in approved minimum increments for equity securities accordingly. This is also applicable to the “limit” or “stop” orders.

Off-Market transactions and other privately negotiated deals are **not** exempted from the tick size requirements.

### (b) **Data Vendors and Order Management System Service Providers:**

The obligation to comply with amendments to the Pricing Methodology Rule lies with the Broker-Dealers. However, Independent Software Vendors and Market Data Vendors may carry out tests to ensure that Broker/FIX clients trade within permissible increments and the Order Management Systems are well integrated to carry out trades in line with these amendments.

### (c) **Investors:**

Investors are advised to contact their Stockbrokers to ascertain whether any of their open orders will be impacted by this amendment.

## 7. INFORMATION DISSEMINATION

The Exchange will circulate a tentative list as well as a final list of constituent equities in each Group before the effective date of this Rule. Subsequent reclassification of equities by The Exchange will be communicated to market participants and other stakeholders in due course.

Frequently Asked Questions on the amendments to the Pricing Methodology Rule have been made available on The Exchange’s website to aid your understanding and compliance.

### NOTES:

1. The above information does not constitute professional investment or legal advice to anyone. Professional advice should be sought by stakeholders or potential investors where required.
2. Should you require further clarification, kindly contact the Market Surveillance and Investigations Department of The Exchange at [Market\\_Surveillance@nse.com.ng](mailto:Market_Surveillance@nse.com.ng).
3. The Rules of The Exchange are also available on its website ([www.nse.com.ng](http://www.nse.com.ng)), for additional reference.

**Issued this 11<sup>th</sup> day of December, 2017**