

Frequently Asked Questions (FAQs) on the Sub-Broker Model



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www.ngxgroup.com



1. Who is a Sub-Broker?

A “Sub-Broker” is any person or entity not being a Trading License Holder of Nigerian Exchange Limited (“NGX”), that is registered by the Securities and Exchange Commission of Nigeria (“SEC” or “the Commission”) as a Sub-Broker; and acts on behalf of a Trading License Holder as its agent for assisting investors in buying, selling or dealing in securities through such Trading License Holder.

2. What is the objective of introducing the Sub-Broker Model?

The objective of introducing Sub-brokers is to enhance financial inclusion by targeting investors that are based in remote, rural or semi-urban areas where investors are more likely to have limited access to financial intermediaries.

3. What are the benefits of the Sub-Broker Model?

Some of the benefits of the Sub-Broker Model include:

- a. Reduced cost of doing business in the Capital Market for the Sub-Broker..
- b. Leverage on Technology services – including website, digital applications..
- c. Niche market.
- d. Reduction of regulatory obligations and cost of compliance.
- e. Broader distribution channels to retail investors.
- f. Enhanced Investors’ confidence.

4. What business can a Sub-Broker engage in?

A Sub-Broker can engage in the following business activities through its sponsoring Trading License Holder (being a Broker Dealer):

- a. Purchasing securities;

- b. Selling securities;
- c. Receiving payments from clients in any of the transactions mentioned in (a) and (b) above Engaging in items a, b and c only by cheques written in favor of a sponsoring Broker Dealer;
- d. Make payments to clients in any of the transactions mentioned in (a) and (b) above only by cheques drawn by a sponsoring Broker Dealer; and
- e. Other services as may be prescribed by the SEC from time to time.

5. What are the different types of the Sub-Broker?

There are three (3) types of Sub-Brokers:

- a. Individual Sub-Broker;
- b. Corporate Sub-Broker;
- c. Sub-Broker/Sub-Broker Serving Multiple Brokers Through a Digital Platform (i.e., Digital Sub-Broker).

6. What is the qualification requirement for an individual Sub-Broker?

An Individual Sub-Broker must:

- a. i) Be an Associate Member of the Chartered Institute of Stockbrokers (CIS); or
- ii) Possess a first degree in a relevant professional field including banking, finance, accounting, business management, law, economics and company secretarial studies with a minimum of four (4) years relevant post-qualification experience (excluding the National Youth Service Corps year); or
- iii) Possess a first or higher degree or its equivalent in a non-relevant field including science-oriented courses, the Arts, etc., with a minimum of six (6) years relevant post-qualification experience (excluding the National Youth Service Corps year); or



- iv) Possess a West African School Certificate (WASC), Senior Secondary School Certificate Examination (SSCE), General Certificate of Education (GCE) or Higher School Certificate or its equivalent with a minimum of fifteen (15) years relevant post-qualification experience; or
- v) Possess such other professional qualifications as acceptable to the SEC;
- b. Identify and enter into an agreement with a Sponsoring Broker Dealer (Trading License Holder); and
- c. Register with the SEC to operate as an Individual Sub-Broker.

7. What is the qualification requirement for a Corporate Sub-Broker?

A Corporate Sub-Broker shall:

- a. Employ at least two (2) Sponsored Individuals¹ who are either Associate Members of the Chartered Institute of Stockbrokers (CIS), or possess such other qualifications as stated in Section 6(a) above;
- b. Identify and enter into an agreement with a Sponsoring Broker Dealer (Trading License Holder); and
- c. Register with the SEC to operate as a Sub-Broker.

8. What is the qualification requirement for a Digital Sub-Broker?

A Digital Sub-Broker shall:

- a. Employ at least three (3) Sponsored Individuals who are either Associate Members of the Chartered Institute of Stockbrokers (CIS), or possess such other

qualifications as stated in Section 6(a) above. One of the Sponsored Individual should be a Compliance Officer who shall be responsible for monitoring compliance with the Investment and Securities Act (ISA) 2007, rules and regulations, notifications, guidelines, instructions, etc. issued by the Commission or the Federal Government;

- b. Identify and enter into a multiple principal agreement with every Sponsoring Broker Dealer (Trading License Holder); and
- c. Register with the SEC to operate as a Sub-Broker.

9. What are the fees payable to the SEC for registration as a Sub-Broker?

An entity is required to pay the following fees² to the SEC for an application to register as a Corporate or Digital Sub-Broker³:

- a. Filing/Application Fee – ₦50,000 (Fifty Thousand Naira);
- b. Processing Fee – ₦200,000 (Two Hundred Thousand Naira);
- c. Registration Fee – ₦200,000 (Two Hundred Thousand Naira); and
- d. Sponsored Individual Fee – ₦50,000 (Fifty Thousand Naira) for each sponsored individual.

10. What are the fees payable to Nigerian Exchange Limited by Trading License Holders for an application to sponsor a Sub-Broker?

Sponsoring Broker Dealers are not required to pay any sponsorship application fee to Nigerian Exchange Limited.

¹ Sponsored individuals are the principal officers and/or professionals held out by a capital market operator as experts and on whose advice or actions investors are expected to rely. The said sponsored individuals shall be registered as such by the Commission.

² As at the date of publication of these FAQs.

³ SEC Requirements for Registration as a Sub-Broker – [Click here](#)
Major Amendments to the SEC Sub-Broker Rules – [Click here](#)



11. What does an entity require to register with the SEC as a Sub-Broker?

An entity requires the following documents to register as a Sub-Broker with the SEC:

a. Individual Sub-Broker

- Certified copy of certificate of registration of business name (where applicable);
- Evidence of N500,000 (Five hundred thousand naira) minimum net worth;
- A copy of the agreement signed between the Sponsoring Broker Dealer and the Individual Sub-Broker;
- Evidence of compliance with Section 6(a) above;
- Sworn undertaking to maintain proper records and render returns; and
- Sworn undertaking to comply with the rules and regulations of the Commission.

b. Corporate Sub-Broker

- Completed SEC application forms;
- Evidence of payment of the fees in Section 9 above;
- Evidence of capital of ₦10,000,000 (Ten million naira);
- Fidelity Insurance Bond representing 20% of the minimum paid up capital;
- A copy of the agreement signed between the Sponsoring Broker Dealer and the Corporate Sub-Broker;
- Evidence of compliance with Section 6(a) above;
- Sworn undertaking to comply with the rules and regulations of the Commission;
- Sworn undertaking to maintain proper records and render returns;
- Recommendation letter from Sponsoring Broker Dealer;

- Audited account or statement of affairs (for companies in operation for less than one (1) year);
- Corporate profile;
- Operational manual and organizational chart; and
- Copies of CAC documents including certificate of incorporation, and documents indicating particulars of shareholding, directors, secretary, and registered address.

c. Digital Sub-Broker

- Completed SEC application forms;
- Evidence of payment of the fees in Section 9 above;
- Evidence of capital of ₦10,000,000 (Ten million naira) (i.e., Bank balances, Fixed asset or Investment in quoted Securities);
- Fidelity Insurance Bond representing 20% of the minimum paid up capital;
- A copy of the agreement signed between the sponsoring Broker Dealer and the Digital Sub-Broker;
- A copy of "multiple principal agreement" with every sponsoring Broker Dealer for a digital Sub-Broker serving multiple sponsoring Broker Dealers;
- A description of the technology on which its infrastructure is built;
- Certification that the Infrastructure is sufficient to perform the required function by an IT Service Provider registered by the National Information Technology Development Agency (NITDA) or other recognized Agency, and endorsed by a representative of the Association of Securities Exchanges;
- Evidence of documented policies and procedures for managing technology risks;



- Details of the electronic communication channel through which all communications with clients would be made;
- Method of establishing the suitability of potential clients to utilize its infrastructure for Transactions;
- Notice to potential clients of the features, risks, responsibilities, obligations and liabilities associated with the use of its infrastructure;
- Before execution of an order, proof that the Client is fully aware of and understands the risks associated with the service being offered;
- Confirmation that it would not delegate its functions to another sub-broker without the written permission of the Commission;
- Adequate KYC requirements and processes;
- Binding Legal Agreement with Potential clients;
- Evidence of compliance with Section 6(a) above;
- Sworn statement of guarantee from the sponsoring Broker Dealer;
- Sworn undertaking to comply with the rules and regulations of the Commission;
- Sworn undertaking to maintain proper records and render returns;
- Recommendation letter from Sponsoring Broker Dealer;
- Audited account or statement of affairs (for companies in operation for less than one (1) year);
- Corporate profile and website address;
- Operational manual and organizational chart;
- Business Plan;
- Bank statement of accounts operated by the Company for the last six (6) months; and

- Copies of CAC documents including certificate of incorporation, and documents indicating particulars of shareholding, directors, secretary, and registered address.

12. What does a Sponsoring Broker Dealer need to obtain the approval of NGX to sponsor a Sub-Broker?

A Sponsoring Broker Dealer requires the following documents to obtain the approval of NGX to sponsor a Sub-Broker:

- a. Copy of the firm's proof of registration with the SEC;
- b. Evidence of the qualifications of the sponsored individual(s) of the Sub-Broker, including evidence of Authorized Dealing Clerk registration, where applicable;
- c. Sworn statement of Guarantee;
- d. Agreement between the Sub-Broker and Sponsoring Broker Dealer; and
- e. Any other document(s) that may be required by NGX.

13. Can NGX provide standardized Sub-Broker Guarantee Form and Sub-Broker Agreement templates that can be adopted by a Sponsoring Broker Dealer and Sub-Broker?

Yes, NGX has designed templates for the two (2) documents. Below are links to the templates:

Sub-Broker Agreement Template

<https://ngxgroup.com/ngx-download/sub-broker-agreement-template/>

Sub-Broker Guaranty Form

<https://ngxgroup.com/ngx-download/sub-broker-guaranty-form/>



14. What is expected of a Sponsoring Broker Dealer before entering into a strategic alliance with a Sub-Broker?

A Sponsoring Broker Dealer is required to conduct detailed Due Diligence on the Sub-Broker to ensure that the Sub-Broker is in compliance with applicable laws, rules and regulations; and that all material information concerning the proposed alliance are available to the Sponsoring Broker Dealer.

15. Are Trading License Holders registered with the SEC as Brokers allowed to sponsor Sub-Brokers?

No. A Trading License Holder registered with the SEC as a Broker cannot sponsor Sub-Brokers. It is only Broker Dealers that can sponsor Sub-Brokers.

16. Are Dealers allowed to enter into a strategic alliance with a Sub-Broker?

No. A Trading License Holder registered with the SEC as a Dealer cannot sponsor Sub-Brokers. It is only Broker Dealers that can sponsor Sub-Brokers.

17. Can a Sub-Broker register more than one Authorized Dealing Clerk?

Yes, a Sub-Broker can register more than one Authorized Dealing Clerk with its Sponsoring Broker Dealer.

18. What is the minimum or maximum commission which a Sub-Broker can earn on transactions executed for its clients?

The minimum commission payable by a Sponsoring Broker Dealer to a Sub-Broker on the transactions executed for the clients of the Sub-Broker shall not be less than 35% of the commission paid by the client to the Sponsoring

Broker Dealer. However, the maximum commission is subject to negotiation between the Sponsoring Broker Dealer and the Sub-Broker.

19. Is a Sub-Broker required to have a Compliance Officer?

Only Digital Sub-Brokers are required to have a Compliance Officer. However, in line with the rules of the SEC, the Compliance Officer of the Sponsoring Broker Dealer is required to provide oversight on the activities of all Sub-Brokers (Individual, Corporate and/or Digital Sub-Brokers) registered under the sponsor.

20. Can a Sub-Broker keep the funds of its clients in its custody?

No, Sub-Brokers are not allowed to keep the funds of their clients in their custody. All clients' funds are to be kept in a bank account jointly managed by the sponsoring Broker Dealer and Sub-Broker.

The receipt issued by the Sub-Broker to clients shall bear the names and logos of both the Sub-Broker and the sponsoring Broker Dealer.

All monies received from or on behalf of clients shall be duly receipted and remitted to the sponsoring Broker Dealer within two (2) working days. In addition, receipts issued by a Sub-Broker to clients shall bear the names and logos of both the Sub-Broker and the sponsoring Broker Dealer.

21. What records is a Sub-Broker required to keep?

A Sub-Broker shall maintain proper and adequate records of transactions for and on behalf of each client. Such records shall be maintained for a period as prescribed by the



applicable laws, rules, and regulations; and shall include but not be limited to the following:

- a. Duly executed mandate forms;
- b. Deposit receipts for purchase of shares;
- c. Script receipts for certificates deposited; and
- d. Clients' statements from any recognized and registered depository.

22. Would Sub-Brokers have Direct Market Access and Sponsored Access?

No. Sub-Brokers will only have Direct Market Access via the Order Management System (OMS) of their sponsoring Broker-Dealer or trade through the sponsoring Broker Dealer.

23. Can a Sub-Broker solicit for deposit from Investors?

No. Sub-Brokers are not allowed to solicit for deposits. Pursuant to the provisions of the SEC Rules and Regulations, June 2013, Sub-Brokers shall not solicit deposits through brochures, salesmen, canvassers or by any other means. Sub-Brokers are only allowed to solicit funds for the purpose of buying or selling securities.

24. Is a Sub-Broker required to file any returns with NGX?

No. Sub-Brokers are not required to file any returns with NGX. However, Sub-Brokers are required to file the following reports with the SEC through their sponsoring Broker Dealer:

- a. Quarterly returns within thirty (30) days after the end of the quarter.
- b. Annual accounts certified by an auditor and prepared on a calendar or fiscal year basis, not later than six (6) months after the end of the accounting year.
- c. Theft or loss of any security upon discovery within forty-eight (48) hours of the discovery.

25. Does a Sub-Broker have to send any report to its clients?

Yes. Upon clients' demand, Sub-Brokers must provide a statement of the client's accounts showing both credit and debit transactions of the client. In addition, a Sub-Broker must furnish its clients in any quarter in which there was a transaction with at least:

- a. A quarterly statement of account showing all purchase and sales transactions on behalf of the client; and
- b. A quarterly report detailing the clients' share portfolio, including the statement of share ownership from the clearing agency.

26. Who regulates the activities of Sub-Brokers?

NGX does not regulate Sub-Brokers. Sub-Brokers are registered and regulated by the Commission. However, Sponsoring Broker Dealers to Sub-Brokers, are subject to NGX's Rules, and have the oversight responsibility for ensuring that Sub-Brokers comply with all the relevant capital market Rules and Regulations.

27. Are Sub-Brokers also Trading License Holders of NGX?

No. Sub-Brokers are not Trading License Holders of NGX as they are not licensed or regulated by NGX.

28. What kind of relationship will NGX maintain with Sub-Brokers?

NGX will have no direct relationship with Sub-Brokers. All issues relating to trading, settlement and clearing will be addressed through the Sponsoring Broker Dealer.



29. Does NGX have Rules and Regulations for Sub-Brokers?

No. The SEC has Rules and Regulations governing the regulatory obligations for Sub-Brokers. However, NGX has Rules in place that govern Sponsoring Broker Dealers' activities with Sub-Brokers.

30. Will the Sponsoring Broker Dealer be liable for the activities of the Sub-Broker?

Yes. Sponsoring Broker Dealers are responsible for the stock broking activities of their Sub-Brokers.

31. What are the obligations/responsibilities of a Sponsoring Broker Dealer in a Sub-Broker relationship?

The obligations/responsibilities of a Sponsoring Broker Dealer in a Sub-Broker relationship include:

- a. Ensure that the Sub-Broker complies with all Capital Market rules and regulations;
- b. Ensure that the Sponsoring Broker's clients are not acting in the capacity of Sub-Brokers;
- c. Transact business with only Sub-Brokers that are duly registered with the Commission upon receipt of approval from NGX;
- d. Notify NGX and the SEC within 48 hours of termination of a relationship and the reasons for the termination;
- e. Conduct internal review/supervisory controls of the activities on the Sub-Broker;
- f. Execute agreements with each of their Sub-Brokers specifying the rights and

responsibilities of the Trading License Holder and Sub-Brokers; and

- g. Rendition of quarterly reports of its review on the activities of the Sub-Broker to NGX.

32. For how long can a Sub-Broker hold the certificates and warrants received from its clients?

All certificates and warrants received by a Sub-Broker from its client's for stock broking transactions shall be forwarded to its sponsoring Broker Dealer within two (2) working days of receipt.

33. Can a Sub-Broker have multiple Sponsoring Broker Dealers?

Yes, but this privilege is limited to Digital Sub-Brokers only and subject to the execution of a multiple principal agreement with every sponsoring Broker Dealer.

An Individual or Corporate Sub-Broker can only have one sponsor.

34. Can NGX withdraw the approval granted to a Sponsoring Broker Dealer to sponsor a Sub-Broker?

Yes. The circumstances in which NGX may withdraw the approval granted to a Sponsoring Broker Dealer to sponsor a Sub-Broker includes but are not limited to the following:

- a. Termination of the sub-broker agreement between the sponsoring Broker Dealer and the sub-broker;
- b. Transfer from one sponsoring Broker Dealer to another;
- c. Inactivity⁴ of the Sub-Broker;

⁴ The Inactivity of a sub-broker refers to a situation where a Sub-Broker has not recorded any trading transaction for a period of time.



- d. Suspension of the Sponsoring Broker Dealer by NGX or the SEC; or
- e. Suspension of the Sub-Broker by the SEC.

35. Can a Sub-Broker transfer from its current Sponsoring Broker Dealer to another Sponsoring Broker Dealer?

Yes. A Sub-Broker can transfer to another Sponsoring Broker Dealer. Refer to Question 37 below for more information on the transfer process.

36. What process will NGX follow to transfer a Sub-Broker from its current or previous Sponsoring Broker Dealer to another Sponsoring Broker Dealer?

The steps are listed below:

- The target sponsoring Broker Dealer shall send an application to NGX, attaching all relevant application documents as provided for in the Rulebook of The Exchange, 2015 (Dealing Members' Rules) as may be amended from time to time.
- NGX will write the current or previous Sponsor requesting for a confidential report on the Sub-Broker.
- NGX will consider all the documents, including the confidential report, in determining whether to approve the transfer to the target Sponsor Broker Dealer.

37. Can a Trading License Holder that has reclassified to the Sub-Broker function reclassify back in the future to a Broker Dealer, Broker or Dealer?

Yes. However, the new reclassification will be subject to the firm registering its new function with the SEC and NGX's licensing process for becoming a Trading License Holder, including NGX's minimum operating standards for the

required Trading License Holder classification, i.e., Broker Dealer, Broker and Dealer.

38. What is the minimum capital requirement for Sub-Brokers?

The minimum capital requirements for Sub-Brokers are specified in the Securities and Exchange Commission (SEC) Rules and Regulations, June 2013 as amended, and prescribes the minimum capital requirements for:

- a. Individual Sub-Brokers as **₦500,000.00 (Five hundred thousand naira)**;
- b. Corporate Sub-Brokers as **₦10,000,000.00 (Ten million naira)**; and
- c. Digital Sub-Brokers as **₦10,000,000.00 (Ten million naira)**.

39. What is the Net Capital requirement for Sub-Brokers?

The aggregate indebtedness of a Sub-Broker shall not exceed ten (10) times its net capital unimpaired by losses.

40. Can Sub-Brokers or other capital market operators act as Representative Offices for Trading License Holders if the Sub-Brokers have an agreement with such Trading License Holders?

No. Although the Sub-Broker framework permits strategic alliances between a Trading License Holder and a Sub-Broker, the framework cannot be used for the purpose of a Representative Office. In summary, a representative office is an office of a Trading License Holder. It is similar to a Trading License Holder's Branch Office from an operational perspective.

The only similarity with the Representative Office and Sub-Broker framework is that they



are both designed to enhance financial inclusion.

41. What will happen to Trading License Holders that reclassify to Sub-Brokers?

Trading License Holders that reclassify to the Sub-Broker function will cease to be Trading License Holders of NGX and will no longer have direct access to the trading facilities of NGX.

42. Can a Sub-Broker maintain a proprietary account?

Yes, a Sub-Broker can maintain a proprietary account with its Sponsoring Broker Dealer.

43. What is required from a Broker Dealer that reclassifies to a Sub-Broker?

The Sub-Broker would be required to:

- a. Relinquish its Trading License Holder status with NGX;
- b. Return its Trading License certificate to NGX; and
- c. Return all other properties of NGX in its possession, e.g., Trading Floor Identification Badges and Access Control Cards for its Authorized Dealing Clerks.

44. How long will a Broker Dealer that reclassifies to a Sub-Broker be allowed to trade on the floor of NGX before being disabled?

Immediately a Trading License Holder reclassifies as a Sub-Broker, its access to trading on NGX's facilities and floors will be disabled forthwith.

45. How will the Sub-Broker framework impact on Nigerians' participation and penetration into the capital market?

The Sub-Broker framework was developed with a view to enhancing financial inclusion. It is targeted at attracting new entrants to the capital market, particularly those based in financially excluded, remote, rural or semi-urban areas.. It is also to discourage illegal capital market operators from taking undue advantage of investors and to create an enabling environment for micro-operators to participate in the capital market in a regulated manner.

46. What are the key rules around the Sub-Broker model?

Section XXII: Sub-Brokers, Rulebook of The Exchange, 2015 (Dealing Members' Rules) as may be amended from time to time; and Rules **20, 67 to 76** of the Securities and Exchange Commission (SEC) Rules and Regulations, June 2013, as amended.

47. Where can I make further enquiries about the Sub-Broker Model?

Further enquiries on the Sub-Broker model can be directed to NGX's Contact Center. The contact details are listed below:

Email: contactcenter@ngxgroup.com

Phone: 07002255673.



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. The referred Rules of NGX are also available on its website (www.ngxgroup.com), for additional reference.