

**INTERPRETATIVE GUIDANCE TO**  
**THE RULEBOOK OF NIGERIAN EXCHANGE LIMITED'S DERIVATIVES MARKET**

**INTRODUCTION**

Nigerian Exchange Limited (NGX or “The Exchange”), in line with its strategic objective to increase the number of asset classes traded on its platform, has introduced Exchange Traded Derivatives (ETDs) in its market. This is in recognition of the need and appetite for these risk management and investment products in order to facilitate hedging of investment risks and diversification of asset portfolios.

However, Derivative instruments are financial contracts that are critically dependent on a regulatory framework that supports their enforceability. It is based on this that The Exchange drafted The Rulebook of The Nigerian Stock Exchange Derivatives Market now known as The Rulebook of Nigerian Exchange Limited’s Derivatives Market (‘Exchange Derivatives Rules’ or ‘The Rulebook of The Exchange on Derivatives’) to create a regulatory framework for the activities of the trading members and other market participants in The Exchange Traded Derivatives market.

The Exchange Derivatives Rules received the approval of the Securities and Exchange Commission (‘SEC’ or the ‘Commission’) on 19 August 2019<sup>1</sup>.

**OBJECTIVE**

This Interpretative Guidance seeks to provide clarity on the expectations of The Exchange from its stakeholders in the Derivatives Market on the first seven chapters of The Exchange Derivatives Rules identified in the table below:

**TABLE OF CONTENTS**

| S/No | Chapter                 | Topics  |
|------|-------------------------|---|
| 1.   | Chapter 1 - Definitions | <ul style="list-style-type: none"> <li>• Holder or Long Party</li> <li>• Intellectual Property</li> <li>• Margin</li> <li>• Procedures</li> </ul> |

<sup>1</sup> The Derivatives Rules became effective on 14 April 2022.

|    |   |   |
|----|---|---|
|    |   | <ul style="list-style-type: none"> <li>• Related Agreements</li> <li>• Re-Acceptance</li> <li>• Settlement Style</li> </ul>   |
| 2. | <b>Chapter 2 – General Provisions</b>                   | <ul style="list-style-type: none"> <li>• Transaction Fees and Charges</li> <li>• Principal Intermediaries</li> <li>• Legal Agreements</li> <li>• The Exchange’s Rights of Set Off</li> <li>• Taxes on Fees and Charges</li> </ul>   |
| 3. | <b>Chapter 3 – Membership</b>                           | <ul style="list-style-type: none"> <li>• Members’ Authorised Representatives</li> </ul>   |
| 4. | <b>Chapter 4 - Formation of Transactions And Trades</b> | <ul style="list-style-type: none"> <li>• The Exchange’s Futures and Options Market</li> <li>• Order Matching Rules</li> <li>• Procedures for Options and Futures Trading</li> <li>• Central Counterparties Clearing</li> <li>• Marking to Market</li> </ul>   |
| 5. | <b>Chapter 5 – Trading Rules</b>                        | <ul style="list-style-type: none"> <li>• Market Maker Rules</li> <li>• Qualification of Market Maker</li> <li>• Position Limits</li> <li>• Re-Acceptance</li> <li>• Daily Cash Settlement Price</li> </ul>  |
| 6. | <b>Chapter 6 – Default</b>                              | <ul style="list-style-type: none"> <li>• Default Rules</li> </ul>   |
| 7. | <b>Chapter 7 – Listing of Derivatives</b>               | <ul style="list-style-type: none"> <li>• Equity Index Futures</li> <li>• Listing of Equity Index Futures</li> <li>• Corporate Action by Issuer of the Underlying Listed Shares</li> <li>• Delisting of Equity Index Futures</li> <li>• Actions by The Exchange pending the approval of the SEC to delist a Product</li> </ul> |

Capitalised words and terms used in this Interpretative Guidance which are defined or described in The Exchange Derivatives Rules shall have the meaning/description stated in The Exchange Derivatives Rules, unless otherwise stated in this Interpretative Guidance.

## INTERPRETATION:

### 1. CHAPTER ONE – DEFINITIONS

The following terms are defined here to provide clarity and further explain the context in which these words are used in this Interpretative Guidance:

#### 1.1 Holder or Long Party<sup>2</sup>

The Exchange will admit for trading Options Contracts. *Options Contract* means a Contract that:

- a. requires the payment of an Option Contract Premium<sup>3</sup>; and
- b. entitles the party that has paid the Option Contract Premium to exercise an option on the terms specified in the Product Specifications.

Therefore, *Holder or Long Party (also called 'Options Holder')* is the party under an Option Contract having the right but not the obligation to exercise the option, whether to buy or sell an underlying asset at a pre-determined price, sometime in the future.

When you take an option to buy an asset, it is called a 'call' and when you obtain the right to sell an asset it is called a 'put'. Hence, Option Trade could either be a Put Option Trade or a Call Option Trade, as the context may require.

To determine whether it is profitable to exercise an option, the current market price (spot price) and the price in the option (strike price) need to be compared. By comparing both prices, a choice can be made to either exercise the option or let it expire.

#### 1.2 Intellectual Property or Intellectual Property Rights<sup>4</sup>

As provided under Rule 2.5.2 of The Exchange Derivatives Rules<sup>5</sup>, The Exchange owns all Intellectual Property Rights in all data of The Exchange's Derivatives Market and all data generated from the activities and transactions on The Exchange's Derivatives Market. The Exchange may use the said data for any commercial or other purpose. The said data includes:

<sup>2</sup> **Defined under The Exchange Derivatives Rules** as "*Holder or Long Party in relation to an Options Trade is a party which will have the right to Exercise on Expiration*".

<sup>3</sup> Premium means the level (price) at which an Options Trade 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.

<sup>4</sup> **Defined in The Exchange Derivatives Rules** as "*Intellectual Property or Intellectual Property Rights means any and all of the following items, whether or not registered, application for the following items (where registrable) and the right to apply for the following items (where registrable): all rights, title and interests in or relating to products, patents, trademarks, service marks, trade and service names, copyrights, moral rights, performance rights, topography rights, database rights, design rights, confidential information, domain names, and trade secrets, unfair competition rights, and all rights or forms of protection of a similar nature or having similar or equivalent effect to any of them, which may subsist anywhere in the world*";

<sup>5</sup> **Rule 2.5.2 Exchange Derivatives Rules:** "*The Exchange owns all Intellectual Property Rights in the data of The Exchange's Derivatives Market and all data generated from the activities and transactions on The Exchange's Derivatives Market*".

- a. all data relating to the operation or design of The Exchange's trading platform or system which is provided to, or generated by The Exchange;
- b. all data relating to Accounts, Trades, Transactions, Contracts<sup>6</sup>, or fees relating to a Member or Client which arise from transacting on The Exchange's Derivatives Market or are generated from or pursuant to The Exchange's Derivatives Market; or
- c. all data relating to Trades executed on or reported on/through The Exchange's Derivatives Market.

The Exchange is free to provide any Member and any third party access to its data under such conditions and requirements as The Exchange may deem fit.

### 1.3 Margin<sup>7</sup>

Margin and collateral requirements<sup>8</sup> are regulatory requirements under the SEC's Rules on Regulation of Derivatives Trading and the SEC's Rules on Central Counterparty<sup>9</sup> (collectively, the "SEC Rules") as well as the rules and regulations of the Central Counterparty ("CCP", i.e., the Designated Clearing House). Pursuant to the provisions of the SEC Rules and the CCP's rules and regulation, Clearing Members are required to post collaterals to the CCP in the form of default fund contributions, membership deposit, margin deposit and any other additional margin and/or collateral requirements as may be determined by the CCP. The Exchange requires all Members to promptly honour their margin and collateral obligations to the Clearing Members. Margin and collateral requirements are provided for in greater detail under the rules and regulations of the CCP.

### 1.4 Procedures<sup>10</sup>

The Exchange will, by way of Notice published on its website and/or sent to relevant recipients, issue from time to time such forms, documents and detailed information, specifications or requirements on any product, transaction or other aspect of trading or its operations.<sup>11</sup> These

---

<sup>6</sup> "Contract" means a binding agreement between Members of The Exchange formed under and pursuant to Rule 4 and discharged or performed in the manner prescribed in this Exchange Derivatives Rules.

<sup>7</sup> Definition in The Exchange Derivatives Rules - **Margin** means the collateral 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;

<sup>8</sup> Collateral means cash and other highly liquid, low risk securities collected by the Designated Clearing House to protect itself and other Clearing Members from potential exposures that could arise as a result of default of a Clearing Member.

<sup>9</sup>Section 13(1)(2) of the SEC's Rules on Regulation of Derivatives Trading; Section 22 of the SEC's Rules on Central Counterparty

<sup>10</sup> Definition of Procedures; Rulebook of The Exchange on Derivatives: Procedures means the Procedures of The Exchange Derivatives Market published as such by The Exchange from time to time

<sup>11</sup> Paragraph K, Page 15, Rulebook of The Exchange on Derivatives – "This Rulebook shall be interpreted in conjunction with any Product Specification, Procedure and Notice issued by The Exchange from time to time. Each Member will be bound by such Product Specifications, Procedures and Notices (which shall be set out on The Exchange's Website) as may be relevant to it."

communications and accompanying documents, where applicable, will cover areas such as market updates, expiration settlement, membership, compliance requirements, transaction processes, disciplinary procedures, settlement procedures, etc.

The Procedures of The Exchange Derivatives Market are part of The Exchange Derivatives Rules.

## 1.5 Related Agreements

Persons dealing in The Exchange's Derivatives Market may be required, depending on the level of participation or access, to execute standard form agreements which include:

- a. Clearing Agreement<sup>12</sup>
- b. Clearing House Agreement<sup>13</sup>
- c. Market Maker Agreement<sup>14</sup>
- d. NCM-CM Agreement<sup>15</sup>

The Exchange will require at the minimum, in line with Rule 3.3.1 and Rule 3.3.2 of the Rulebook of The Exchange on Derivatives<sup>16</sup>, a duly executed copy of the NCM-CM Agreement, prior to granting a Non-Clearing Member<sup>17</sup> access to its trading Platform.

## 1.6 Re-Acceptance<sup>18</sup>

A Re-Acceptance may be triggered by either a Protest (brought under Rule 5.3 of the Rules), or a Request (brought under Rule 5.11 of the Rules). It is initiated by means of a Protest where it relates to incorrectly accepted trades/transactions or omission to accept correctly concluded

---

<sup>12</sup> Definition of Clearing Agreement: "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";

<sup>13</sup> Definition of 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";

<sup>14</sup> 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;

<sup>15</sup> NCM-CM Agreement means a Clearing Agreement between the Non-Clearing Member and the relevant Clearing Member, which agreement complies with the Designated Clearing House requirements.

<sup>16</sup> In accordance with Rule 3.3.1 above 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.

<sup>17</sup> In The Exchange Derivatives Rules, a Non-Clearing Member ("NCM") means a Member which is not a member of the Designated Clearing House

<sup>18</sup> Defined in The Exchange Derivatives Rules as "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 Exchange Rules".

trades/transactions; while a Request (for Re-Acceptance) is used for transferring a cleared trade/transaction from one Account to another Account.

## 1.7 Settlement Style<sup>19</sup>

The requirements, timing and process of moving cash or the physical Underlying (where applicable) between Members shall be as set out in the Circulars<sup>20</sup> of the CCP. The CCP shall issue documentation or information, under its rules, detailing the Product Specifications and, in respect of each Trade, any specific requirements or procedures applicable to matters such as clearing, settlement or risk management of each Trade.

Without prejudice to the Circulars of the CCP, a Clearing Member may issue to a Member on each Business Day instructions to perform the Cash Settlements<sup>21</sup> and Delivery Obligations due to be performed by that Member ("Settlement Instructions"). The Settlement Instructions may include instructions to a Member to make a payment on the day on which the Settlement Instruction is issued (including an instruction to provide Collateral in respect of an Intra-Day Margin Requirement<sup>22</sup>).

## 2. CHAPTER TWO – GENERAL PROVISIONS

### 2.1 Transaction Fees and Charges

The Exchange shall publish on its website a list of fees and charges payable for services from The Exchange ("Price List<sup>23</sup>") as decided by The Exchange from time to time, subject to the approval of the SEC. Members are liable to The Exchange for payment of fees and charges on The Exchange's Price List, regardless of whether or not they are the owners of the Trades that they submit to The Exchange<sup>24</sup>. Payment for all fees and charges shall be in the currency indicated by The Exchange.

A Member shall be responsible for all costs which it may incur in using the NGX Platform or in putting itself in a position to do so.

---

<sup>19</sup> *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 but after all obligations have been netted;*

<sup>20</sup> *The Circulars of a CCP refer to the written instructions issued by the CCP, under its rules and regulations, containing details such as the product specifications and, in respect of each eligible product (derivatives contract), any specific requirements or procedures applicable to the pricing, clearing, settlement or risk management of such eligible product.*

<sup>21</sup> "Cash Settlement", under the rules of a CCP, refers to any cash amount payable by a clearing member to the CCP or by the CCP to a clearing member.

<sup>22</sup> Intra-Day Margin means, in relation to any day, the amount of additional collateral to be provided by a CCP Clearing Member to the CCP in accordance with rules of the CCP.

<sup>23</sup> Definition of Price Lists: *Price Lists means the lists of charges payable for services from The Exchange as published and amended by The Exchange from time to time;*

<sup>24</sup>Rule 2.2.1: "Members are liable to pay such fees and charges as shall be specified in the Price Lists..."

Rule 5.1.4: "A Member shall be liable for all obligations and liabilities arising from the submission of electronic messages and Orders to the NGX Platform under that Member's trading codes. 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 NGX Platform"

In addition, each Member shall indemnify The Exchange on demand against any transaction tax, registration and other similar tax and all court, notarial and other fees payable in connection with any Payment Obligation<sup>25</sup> of such Member or for the purpose of enforcing the Rules of The Exchange<sup>26</sup>.

A Member may be charged for any unusual expenses caused directly or indirectly by such Member including (but without limitation), the cost of producing records pursuant to a court order or other legal process in any litigation or other legal proceeding to which such Member is a party or in which such records relating to such Member are so required to be produced, whether such production is required at the instance of such Member, or of any other party other than The Exchange<sup>27</sup>.

The fees and charges (such as clearing fee, cash settlement fee, exercise fee and delivery/tender fee, etc.) for the clearing of Listed Products that are accepted for clearing shall be as stipulated by the CCP and payable by the Clearing Members of the CCP<sup>28</sup>.

## 2.2 The Exchange's Right of Set-off

The Exchange has the right, at any time and without notice, to set off any indebtedness due to it by a Member against any obligation owed by it to the Member, regardless of the nature of The Exchange's obligation, place of payment or currency of either indebtedness<sup>29</sup>.

In line with Rule 2.2.8 of The Exchange Derivatives Rules, if the indebtedness of the Member and the indebtedness of The Exchange are in different currencies, The Exchange may convert either indebtedness (at the rate it indicates) for the purpose of the set-off.

## 2.3 Taxes on Fees and Charges

---

<sup>25</sup> Under the rules of a CCP, 'Payment Obligation' refers any obligation of a party under a Contract to make a payment to the other party or to otherwise account to the other party for value in exchange for the performance by such other party of its Delivery Obligation (notwithstanding that such obligation may be discharged by the offset of other obligations as opposed to an actual cash payment).

<sup>26</sup> Rule 2.4.5: *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.*

<sup>27</sup> Rule 6.5: *"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"*.

<sup>28</sup> Rule 2.2.2: *The Designated Clearing House will collect all Clearing fees due and payable under this Derivatives Exchange 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 by that Clearing Member and any Non-Clearing Member or Client for which it has cleared any Transaction. 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.*

<sup>29</sup> Rule 2.2.7: *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 Member to The Exchange, regardless of the place of payment, account, branch or currency of either obligation*

All amounts payable by Members for all services provided by The Exchange shall be paid without any deduction or withholding for or on account of tax. The Price List of The Exchange is exclusive of all applicable taxes.

When a Contract is settled in cash, the tax is calculated by multiplying the market value per contract by the settlement tax rate on the expiration date.

### 3. CHAPTER THREE – MEMBERSHIP

Members must satisfy the Membership Criteria set out in Rule 3.1 and Rule 3.2.1 of the Rulebook of The Exchange Derivatives Rules<sup>30</sup>.

In The Exchange's derivatives market, a Member *"is 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 includes a former Member, where appropriate."*<sup>31</sup>

Members are required to enter into Clearing Agreements with the Clearing Member of their choice, which agreement is required to comply with the requirements of the designated CCP. Members can also have direct relationship with the CCP by becoming Clearing Members. Transactions are essentially concluded between the CCP and a given Clearing Member, and in turn between that Clearing Member and the specific Member. Also, Margin deposits and fee payments, for example, are made to the CCP via the contractually stipulated Clearing Member.

#### 3.1 Authorised Persons / Representatives

Each Member is required at all times to have appointed at least one individual to act as its Authorised Person/Representative in dealing with The Exchange. The appointed Authorised Persons/Representatives shall be the primary point of contact and liaison between The Exchange and the Member in relation to matters arising in connection with the Member operating in The Exchange's Derivatives Market.

The Member must ensure that its Authorised Persons/Representatives<sup>32</sup>:

- a. are appropriately knowledgeable and trained in relation to The Exchange's Derivatives Rules and those aspects of the Member's activities in relation to The Exchange for which they are appointed to liaise with The Exchange;

---

<sup>30</sup> Rule 3.2.2 of the Rulebook of The Exchange on Derivatives: For the avoidance of doubt, a dealing member (now known as a Trading License Holder) of The Exchange is eligible to be a Member if it satisfies the Membership Criteria set out in Rule 3.1 and Rule 3.2.1 above and other conditions as may be stipulated by The Exchange from time to time.

<sup>31</sup> Chapter 1: Definitions; Rulebook of The Exchange's Derivatives Market

<sup>32</sup> Rule 3.2.1 (h) and (i) of the Rulebook of The Exchange on Derivatives



- b. are appropriately empowered by the Member to take decisions on behalf of, and represent the interests of, the Member in relation to those aspects of the Member's activities in relation to The Exchange for which they are appointed to liaise with The Exchange; and
- c. in their interactions with The Exchange, act in an open and co-operative manner, and are honest and truthful and do not mislead or conceal any matter related to or arising in connection with the Member operating in The Exchange's Derivatives Market.

The Member must ensure that The Exchange is at all times in receipt of up-to-date contact details (including direct telephone number, office address and electronic mail address) of each Authorised Representative currently appointed by the Member<sup>33</sup>.

In the event that The Exchange notifies the Member of any concerns regarding, or objection to, any Authorised Representative appointed by the Member, the Member shall take all reasonable steps to address The Exchange's concerns within ten (10) Business Days of the receipt of such notice. In the event that the Member is unable to adequately address The Exchange's concerns to the satisfaction of The Exchange, the Member shall replace the Authorised Representative.

## 4. CHAPTER FOUR – FORMATION OF TRANSACTIONS AND TRADES

### 4.1 The Exchange's Derivatives Market

The Exchange Derivatives Market segment provides a fully automated trading environment for screen-based, floor-less trading on a nationwide basis and an online monitoring and surveillance mechanism. The system supports an order driven market and provides complete transparency of trading operations.

#### Definitions of Terms Under this Chapter

**Products** are defined as Options and Futures<sup>34</sup> which are admitted to trading on The Exchange on a specific Underlying;

**The Underlying** is defined as the index, commodity, share, bond, interest rate, currency or any other instrument on which a Product may be based.

---

<sup>33</sup> Rule 3.1.3: Members must provide The Exchange with details of all Authorised Persons when completing their membership application by filling the Authorised Persons Form.

<sup>34</sup> The Derivatives Rulebook defines a Futures Trade as "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 this Exchange Derivatives Rules and the Product Specification of the Futures Trade;

**An Instrument** is the respective Futures contracts per date of maturity or, as the case may be, the respective call series or put series of an Options Contract can be a futures or Option Contract based on a financial or commodity transaction.

## **Central Counterparty Clearing**

After a trading transaction is matched and The Exchange has confirmed the matching transaction with the Members, the Central Counterparty or Clearing House (CCP), as the direct central counterparty, will become a buyer to every selling Member and a seller to every buying Member. Therefore, a Member who has long or short futures has an obligation not to the party on the other side of the Transaction, but to the CCP, just as the CCP has an obligation to the Member.

The CCP guarantees the performance of payment and securities delivery of any Trade arising from Transactions on The Exchange's Derivatives Market and novated to the CCP in line with the CCP Rulebook. This reduces the risks stemming from Clearing Members who fail to meet their contractual obligations or "credit risks". The CCP has in place a margining system that ensures the performance of Clearing Members' obligations to the CCP. Contracts are also marked-to-market by the CCP.<sup>35</sup> More details on this can be seen in the CCP's Rulebook and Circulars.

## **5. CHAPTER FIVE – TRADING RULES**

### **5.1 Market Maker Rules**

A Market Maker<sup>36</sup> under the Exchange Derivatives Rulebook is a person licensed by the SEC and authorised under the Rules of The Exchange to provide liquidity to The Exchange's Derivatives Market. To perform their duties, a Market Maker will continuously submit bid/offer pair Orders for a given Product. The fees payable by the Market Maker shall be published on The Exchange's website.

### **5.2 Qualifications of Market Makers**

The qualifications of Market Makers and other information related to Market Makers /liquidity providers for Product will be stipulated in the market making guidelines for The Exchange Derivatives Market.

However, some qualifications of a Market Maker include that the Market Maker:

---

<sup>35</sup> Mark to market is the procedure used to determine the profits/losses in a contract/portfolio by computing the difference between the trade price or the previous day's settlement price, as the case may be, and the current day's settlement price.

<sup>36</sup> Definition of Market Maker: 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;

- a. shall enter into a Market Maker Agreement with The Exchange specifying the Products in which it agrees to act as such, the capacity in which it will act in respect of each Product, and every other term of the liquidity scheme of The Exchange.
- b. must have sufficient system readiness, including a risk management policy to deal with any potential risk that may arise from the Market Maker's duty.
- c. must have stable financial status and have no risk that may adversely affect the performance of its functions.

### 5.3 Re-Acceptance

#### 5.3.1 Re-Acceptance of Trades Following a Protest (Rule 5.3)

Where a Member believes that an error has occurred regarding the handling of an Order that the Member has validly submitted on the NGX Platform, the Member may complain about such an error in the form of a Protest.<sup>37</sup> This is based on Rule 5.3 of The Exchange Derivatives Rules, which allows a Member to complain about the following:

- a. cancellation or amendment of an incorrectly accepted transaction under Rule 4.1.2 of The Exchange Derivatives Rules;
- b. acceptance of a transaction that is incorrectly omitted for acceptance;
- c. amendment of an incorrectly executed or non-executed Exercise;
- d. or cash Settlement; or
- e. any other error which the Member believes has occurred in respect of an Order that the Member has validly submitted on the NGX Platform.

Where The Exchange decides that a Protest is valid, it shall confirm to the Designated Clearing House to amend the particulars recorded in the clearing system against the appropriate Account(s) of the Member(s) concerned.

#### 5.3.2 Re-Acceptance following a Request (Rule 5.11)

Members are allowed to request The Exchange to transfer a Cleared Trade from one Clearing Member to another, under any of the grounds listed under Rule 5.11.2 of The Exchange Derivatives Rules.

The request must be in writing and submitted within the Business Hours, as set out in the Product Specifications<sup>38</sup>, on the Business Day following the day in question when the Position or Trade was cleared with the CCP. The request shall contain the following details:

- a. the Trades/Transactions to be registered;

---

<sup>37</sup> Protests are discussed more fully, in the interpretation of Rule 5.10 at Page 13 below

<sup>38</sup> 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 may be varied by The Exchange from time to time.*

- b. the Account of the transferor; and
- c. the Account of the transferee.

A Request for Re-Acceptance can be accepted prior to the specific Listed Product opening for trading provided that the request must be submitted within Business Hours. All Requests for Re-Acceptance will be considered at the discretion of The Exchange and the CCP and shall, if accepted by the CCP, result in the Re-Acceptance of the Trade/Transaction in question being executed at the time specified by the CCP.

The Exchange will make a decision and inform the concerned Member within 48 (Forty-Eight) hours following receipt of the Request<sup>39</sup>. The decision of The Exchange and the CCP in this respect shall be final and binding.

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 CCP. Standard fees shall apply to Re-Acceptance of Trades/ Transactions under Rule 5.11 of The Exchange Derivatives Rules.

#### **5.4 Daily Cash Settlement Price**

The settlement price is typically the average price at which a Contract Trades, calculated at both the open and close of each trading day, and it is important because it determines whether a Member is required to post additional Margins with its Clearing Member.

All Products are Marked-to-Market at the end of each trading day of The Exchange's Derivatives Market at a Daily Settlement Price communicated by The Exchange and the CCP.

#### **5.5 Trade Reporting Rules**

Trading in NGX's derivatives market is automated. The system is designed to automatically match the best buy order with the best sell order. Trades created this way are referred to as Standardised Series. Sometimes however, counterparties to a Trade may agree on all details of the Trade prior to having it submitted to the NGX Platform. Such a Trade is referred to as Bilaterally Negotiated Trade or Tailor-made Series.<sup>40</sup>

The Exchange will issue templates that Members must use in reporting Tailor-made Series. The templates are important to ensure that Tailor-made Series conform to standards and specifications required in order to accept the transaction as a Trade on the NGX Platform and for Clearing by the Designated Clearing House.

---

<sup>39</sup> Rule 5.11.8 of The Rulebook of The Exchange on Derivatives

<sup>40</sup> Rule 5.1.1: All Transactions on The Exchange Derivatives Market shall be effected automatically on The Exchange's Order Book or reported through The Exchange Derivatives trade reporting system.

## 5.6 Protests

The Exchange Derivatives Rules give Members the opportunity to submit a complaint (Protest) about any aspect of trading on the NGX Platform up to the point of Settlement of a Trade by the Designated Clearing House.

When one Order<sup>41</sup> is matched with another Order on the NGX Platform, a Transaction is created between the Member which submitted one of the Orders and the Member which submitted the other Order. This Transaction 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.

The Rules on Protests allow a Member to complain about any errors in respect of an incorrectly executed or non-executed Exercise<sup>42</sup> or Settlement<sup>43</sup>. To be valid, a Protest must be submitted to The Exchange by the Member as soon as the error is discovered, however no later than 08:00 hours West Africa Time (WAT) on the Business Day following the day of the Transaction. 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 as soon as the error is discovered, however no later than 60 minutes prior to the closing of the Clearing system on the Expiration Day.

The Exchange will issue templates that Members must use in making a Protest.

## 6. CHAPTER SIX - DEFAULT RULES

The provisions of Chapter 6 of The Exchange Derivatives Rules set forth the Default Rules of The Exchange Derivatives Market for the purpose of the Companies and Allied Matters Act, 2020<sup>44</sup>, the Investments and Securities Act, 2007 (ISA) and the Rules and Regulations made by the SEC under the ISA<sup>45</sup>.

The Exchange is entitled to take action under Chapter 6 of The Exchange Derivatives Rules with respect to a Member if The Exchange determines that an Event of Default has occurred.

---

<sup>41</sup> 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 bided for or offered at each price point, or market depth. The Order Book is dynamic and constantly updated in real time during Business Hours.

<sup>42</sup> Exercise means the act whereby the Holder of an Options Trade chooses to exercise its right to buy from or sell the Underlying to the Writer under the terms of the Options Trade and will receive Settlement on those terms.

<sup>43</sup> 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.;

<sup>44</sup>Reference is made to the netting provisions in the law.

<sup>45</sup> Reference is made to settlement finality provisions under the law.

These Default Rules of The Exchange will apply where there is an Event of Default, subject to the circumstances recognised in Rule 6.1.2 where the Designated Clearing House's Default Rules will apply.

There is no limit to acts or omissions of a Member that may qualify as an Event of Default. As a result, The Exchange has a discretion to determine whether any Event of Default has occurred and, if so, what action to take under these Default Rules of The Exchange.

## 7. CHAPTER SEVEN – LISTING OF PRODUCTS

The Exchange will only admit for trading derivatives contracts that meet the Product Specifications<sup>46</sup> of The Exchange. The contracts approved by the SEC as of the date this Interpretative Guidance was released are listed in Appendix A. The contracts may be introduced by either The Exchange or by a Member. All requests for admission of contracts on the Order Book<sup>47</sup> will be considered at the discretion of The Exchange.

A derivatives contract being introduced by a Member shall be by means of a written request by the Member addressed and sent to the Products Development Department of The Exchange at [ProductsDevelopment@ngxgroup.com](mailto:ProductsDevelopment@ngxgroup.com). The Listing Request must comply with section 7.2 of the Rulebook of The Exchange Derivatives Rules in order to be considered. Contracts that meet the Product Specifications of The Exchange will be admitted on the Order Book after the approval of The Exchange and the SEC.

The SEC Rules on Regulation of Derivatives Trading require the registration of exchange-traded derivatives contracts with the SEC. It shall be the responsibility of The Exchange to undertake the registration of contracts that it decides to admit on its Order Book. Where the admission of a contract is pursuant to the request of a Member, the Member shall bear the cost of registration of the contract with the SEC.

The Exchange will, by way of Notice published on its website and/or sent to all Members, issue from time to time Listed Products<sup>48</sup> for trading on its Platform. This communication and accompanying documents, where applicable, will contain information such as:

- a. A brief description of the Contract
- b. Name of the Contract
- c. Name and Specification of the underlying
- d. Type of contract (whether Futures or Options)
- e. Contract code
- f. CCP that will clear the contract
- g. Trading hours

---

<sup>46</sup> This document is published on the website of The Exchange as part of The Exchange's Procedures.

<sup>47</sup> 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 bided for or offered at each price point or market depth. The Order Book is dynamic and constantly updated in real-time during Business Hours.

<sup>48</sup> Listed 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.

- h. Last trading date
- i. Settlement style/method
- j. Multiplier
- k. Listing date
- l. Expiry date
- m. Expiry month
- n. Contract life/tenor
- o. Mark to market model
- p. Any other information, which The Exchange considers to be relevant to the Listed Product.

The Exchange's Notice of Listed Products will be updated from time to time as may be required in terms of the Rulebook of The Exchange Derivatives Rules.<sup>49</sup>

#### **Actions by The Exchange where there is Corporate Action by the Issuer of the Underlying**

Section 7.4 of Rulebook of The Exchange Derivatives Rules applies to equity derivatives contracts. This guidance is necessary in view of Clause 3 (2) (b) of the Rules on Regulation of Derivatives Trading of the SEC.

The Exchange will facilitate the listing and trading of derivatives contracts on the Underlying shares of only companies listed on a securities exchange recognised in Nigeria.

The Exchange may take any of the following actions, where the Issuer of the Underlying listed shares takes corporate action:

- a. adjustment of the contract size;
- b. adjustment of the contracted price;
- c. adjustment of open interest;
- d. requirement for cash payment;
- e. delisting of index futures underlined by such shares; or
- f. any other action as The Exchange deems appropriate.

Any of the following will qualify as corporate action by the Issuer of the underlying listed shares (this list is not meant to be exhaustive and is not a closed list):

- a. share capital increase by way of rights issue

---

<sup>49</sup> Section 7.3 of The Exchange Derivatives Rulebook – *The Exchange shall notify all Members of the approval of an application in terms of The 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.*

- b. change in par value of the shares
- c. payment of dividends
- d. payment of special dividends including interim dividends
- e. Share repurchases
- f. Mergers and takeovers
- g. Liquidation
- h. Demergers
- i. Subdivision or consolidation of share capital
- j. Bonus issues
- k. Stock splits and reverse stock splits.

The Exchange will take steps on a case-by-case basis, which may include the suspension<sup>50</sup> of trading in equity index futures in any settlement month<sup>51</sup> or in all months, in accordance with The Exchange Derivatives Rulebook, procedures and as it deems appropriate.

#### NOTES:

1. The above information does not constitute professional investment, service 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 Products Development Department of The Exchange at [ProductsDevelopment@ngxgroup.com](mailto:ProductsDevelopment@ngxgroup.com).
3. The Rulebook of Nigerian Exchange Limited's Derivatives Market<sup>52</sup> as well as other Rules of The Exchange are available on The Exchange's website ([www.ngxgroup.com](http://www.ngxgroup.com)), for additional reference.

**Issued this 22<sup>nd</sup> day of April 2022**

---

<sup>50</sup> See Rule 3.9 of the Rulebook of The Exchange Derivatives Rules (Summary Suspension and Restrictions)

<sup>51</sup> The delivery month denotes when a derivatives contract expires, and when the underlying asset must be delivered or settled.

<sup>52</sup> Formerly known as The Rulebook of The Nigerian Stock Exchange Derivatives Market.



**Appendix A**

| <b>S/No.</b> | <b>Contract Name</b>                         | <b>Registration Number</b> |
|--------------|--|----------------------------|
| 1.           | Access Bank Plc Stock Futures                | SR/NGX/2021/000615A        |
| 2.           | Dangote Cement Plc Stock Futures             | SR/NGX/2021/000615B        |
| 3.           | Guaranty Trust Bank Plc Stock Futures        | SR/NGX/2021/000615C        |
| 4.           | MTN Nigeria Communications Plc Stock Futures | SR/NGX/2021/000615D        |
| 5.           | Zenith Bank Plc Stock Futures                | SR/NGX/2021/000615E        |
| 6.           | NGX 30 Index Futures                         | SR/NGX/2021/000615F        |
| 7.           | NGX Pension Index Futures                    | SR/NGX/2021/000615G        |