



FREQUENTLY ASKED QUESTIONS

Market Making on NGX

Frequently Asked Questions

What is *Market Making*?

Market Making is the process whereby a broker-dealer, trading license holder or market participant appointed to provide continuous two-way quotes (comprising of buy and sell prices and sizes) to the market for the securities that they make markets on during the trading day – one indicating the price and size he/she is willing to buy a particular security, called the 'bid'; the other indicating the price and size he/she is willing to sell that same security, called the 'ask', or 'offer'. The difference between the bid and offer prices is known as the bid-ask spread and is the market maker's profit.

Who is a Market Maker?

A Market Maker is a market participant licensed to execute and maintain firm bids and offers according to the rules of The Exchange. Market makers add to liquidity by being ready to buy and sell designated securities during the trading day (as specified by The Exchange).

What is Best Bid and Offer (BBO)?

BBO is the best (lowest) available ask price and the best (highest) available bid price to investors when they buy and sell securities throughout a country. The BBO is important to market makers because they indicate what they should charge or expect for the shares they make markets for.

Are Market Makers limited to only Market Making Activities?

No, Market Makers can engage in other trading business activities or may be affiliated with dealing member firms that trade. However, best practices require that there is an information barrier between the market making activities and the other business activities.

How do I Register to become a *Market Maker* on NGX?

A Trading License Holder who intends to become a Market Maker shall apply in writing by completing The Exchange's Market Maker Application Form in full. The Exchange's Market Maker Application Form can be accessed at **Forms**; and completed applications may be delivered by email, or directly delivered to the offices of The Exchange via the following contact information:

Secondarymarket@ngxgroup.com
+234-1-4489937
Nigerian Exchange Group House
2-4 Customs Street, Lagos, Nigeria
contactcenter@ngxgroup.com
www.ngxgroup.com

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Are Market Makers Allowed to Short Sell?

Yes, like other broker-dealers, Market makers are allowed to make a covered short sale –where the seller has entered into a bonafide agreement with a securities lending agent to borrow or is in the process of borrowing a security when the sale is made. All market participants including Market Makers are prohibited from naked short selling.

How do Market Makers make Profit?

The Market Maker's primary source of income is from the spread. The market-maker spread is the difference between the price at which a market maker is willing to buy a security and the price at which it is willing to sell the security. While the spread between the bid and ask is only a few basis points, market makers can profit by executing thousands of trades in a day and expertly trading their “book.”

Is There Any Limit on the Number of Securities that can be Selected?

All listed securities are eligible for selection and there is no limit on the number of securities that can be selected. At inception, Market Makers will be required to select a minimum of three (3) securities of obligation with one from each liquidity class – Liquid (A), Less Liquid (B), and Illiquid classes (C). Subsequently, Market Makers may include additional securities of obligation from any class as they deem suitable.

What Obligations are Market Makers Expected to Fulfil?

- I. Maintain continuous two-sided quotes (bid and ask) within a predefined spread.
- II. Percentage of time in Market: A market maker must maintain an executable quote in each of the securities it is registered as a market maker for, for a minimum period as stipulated by the Market Making guideline of each product class.
- III. Minimum Quote Size: Market maker quotes must be for a minimum number of shares as stipulated by the Market Making guideline of the product class
- IV. Minimum Commitment Period: MMs must meet the obligation for at least 6months once appointed as Market Makers and voluntary de-registration within this period is not allowed
- V. Meet the anticipated needs of the market by sometimes maintaining inventory to facilitate trading in specific securities.
- VI. Play the role of a secondary market catalyst by enhancing the liquidity of securities listed on the Exchange.

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Are there any Exceptions to Market Making Obligations?

The Exchange may at its discretion, grant temporary exemptions from the aforesaid minimum conditions for temporary deviations where extraordinary market situations exist such as trading halt, suspension, or pause, or where the Market Maker requests an exemption due to situations such as system problem.

What is the Minimum Capital Requirement for Market Makers?

Market Makers shall meet the minimum net liquid capital required for market makers as stipulated by the Market Making guideline of each product class.

What are the Benefits of Market Making?

- More liquidity in the marketplace, which in turn allows for easy entry and exit, as well as portfolio diversification and management.
- Issuers enjoy more activity in their securities, thereby increasing their liquidity and attractiveness, eventually leading to cheaper capital raising activities.
- Reduced market impact from price fluctuation as spreads continue to narrow.
- Enhanced revenue opportunities from trading activities for Market participants especially Market Makers.

What are the Regulations Guiding Market Making on NGX?

NGX Rules Pertaining to Market Makers and Market Making (Section XXIV), and NGX Market Making Guidelines on the Exchange's Website.

NOTES:

1. The above information does not constitute investment or legal advice. Professional advice should be sought by stakeholders or potential investors where required.
2. For further information: Please visit our website or email secondarymarket@ngxgroup.com.

