Supervision Priorities for 2023
NGX Regulation Limited (NGX RegCo) is pleased to publish the Supervision Priorities for 2023 to assist Trading License Holders, the investing public and other stakeholders in the Nigerian Capital Market identify the areas of regulatory focus regarding our supervision methodology for the year.

NGX RegCo is the independent regulatory arm of Nigerian Exchange Group Plc (NGX Group). We provide regulatory services to Nigerian Exchange Limited (NGX) under the terms of the Regulatory Services Agreement between the parties. In our role as a provider of regulatory services, NGX RegCo promotes just and equitable principles of trade and sound operational business practices in the capital market.

To enhance our regulatory oversight in 2023, our supervision program has been designed to take cognizance of the rapid changing business environment and we will be adopting a risk-based approach to effectively manage our supervisory resources against the backdrop of a dynamic and fast paced market.

Businesses across the globe continue to tackle the socio-political and economic repercussions of the continued Russian war against Ukraine, insecurity within the country, increased inflation, cybercrime, political risks and uncertainty due to the outcome of the national and gubernatorial elections, rising cost of living and business operations, unavailability of foreign exchange, brain drain as a result of immigration, unreliable energy supply, etc. These factors continue to remain top burning issues and challenges affecting the business operations of Trading License Holders.

However, in order to reflect the nature of the current business environment which the market is exposed to, our supervisory program seeks to be proactive to ensure Trading License Holders strengthen their resilience, maintain effective risk management and controls, and ultimately put investor protection at the core of their business operations.

I look forward to continued collaboration between market participants, regulators, market infrastructures, and other stakeholders this year to maintain a fair and orderly Capital Market.
I. INTRODUCTION

The objective of the 2023 NGX RegCo Supervision Priorities report is to highlight to Trading License Holders, investors and other stakeholders issues that are considered the most important as well as other emerging risk areas.

The 2023 Supervision Priorities is drawn from the findings and observations of our Risk Based Supervision (RBS) examinations, investigations, surveillance activities, ongoing monitoring efforts, environmental scanning and feedback from our stakeholders to address specific material areas of regulatory concern and to provide guidance in these areas. NGX RegCo notes that the specific areas highlighted in this document are not the only areas of supervisory focus for 2023, as other relevant areas included in our previous Supervision Priorities document may also be considered.

Furthermore, NGX RegCo plans to allocate a significant portion of its supervisory resources using a risk-based approach. Additional examinations may be conducted during the year at the discretion of NGX RegCo based on emerging and exigent risk areas, perceived control weaknesses and arising policy matters that may not be specifically addressed in this document.

The scope of these priorities may be revised as a result of our continuous engagements with the Securities and Exchange Commission (SEC) and other domestic and international financial sector regulators.

II. 2022 REVIEW

In 2022, NGX RegCo continued to monitor the activities of Trading License Holders in achieving compliance with their regulatory obligations and ensuring effective surveillance of the market. Below are some of the supervisory activities carried out during the year 2022.

We continued with virtual Risk Based Supervision (RBS) examinations of Trading License Holders leveraging on the Self-Assessment Forms (SAF) submitted by firms. During the year 2022, the team successfully completed focused RBS examinations, pre-certification examinations of Trading License holders that applied for licensing as a Derivatives Market Trading Member, Branch pre-certification examinations, Representative Office pre-certification examinations, Minimum Operating Standards revalidation examinations, and Consolidated Supervision examinations of firms who are subsidiaries of Financial Holding Companies under the auspices of the Financial Services Regulation Coordinating Committee (FSRCC).

Further, we received a total of two hundred and eight (208) applications for regulatory approvals. Out of the two hundred and eight (208) applications, one hundred and seventy-eight (178) approvals were granted while thirty (30) applications are under review.

Additionally, we received and reviewed about twelve thousand five hundred (12,500) regulatory reports in the Financial Year (FY) 2022. The summary of these reports are presented in the table below:

<table>
<thead>
<tr>
<th>Audited Financial Statements</th>
<th>Quarterly Returns</th>
<th>Monthly Stockbroking Transactions Report</th>
<th>Net Liquid Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>190</td>
<td>752</td>
<td>2,273</td>
<td>9,285</td>
<td>12,500</td>
</tr>
</tbody>
</table>

III. 2023 SUPERVISION PRIORITIES

NGX RegCo will continue to adopt a flexible approach in both its Risk Based Supervision (RBS) Framework and Compliance Monitoring Program in order to accommodate emerging risk areas that may be identified in the course of our reviews.

The priority areas for the current year are described below in general and specific terms:

The NGX Supervision Priorities for 2022 - [Click here](#)
2023 SUPERVISION PRIORITIES FOR TRADING LICENSE Holders

**Technology**
- Digital Trading Applications
- Cyber Security
- Business Continuity Planning

**Market Integrity**
- Insider Dealing and Substantial Shareholding Disclosure Obligation
- Financial Reporting
- Fraud Detection and Prevention
- Market Manipulation
- Anti-Money Laundering/Combating the Financing of Terrorism

**Operations**
- Risk Management and Control Functions
- Insurance Product
- Commingling of Clients Assets and Segregation of Accounts
- Client Communications
- Group Operations
- Governance and Corporate Restructuring
- Third Party Bank Transactions
- Custodial Account for Minors

**Emerging Trends**
- Exchange Traded Derivatives
- Sustainable Finance Principles
- Sponsored Access/Direct Market Access
1. TECHNOLOGY

Trading License Holders have continuously implemented significant changes, aided by technology, in their business operations. Technology has enabled Trading License Holders to digitize their processes and provide innovative solutions to service their clients. It also helps develop deeper insights. As the processes become more complex, both the regulatory regime and firms’ risk management and control frameworks have to be tightened to maintain pace with technological innovation and address issues of cybercrime.

Following the development and implementation of Minimum Operating Standards (MOS)\(^2\) for Trading License Holders in 2015, NGX RegCo has conducted revalidation examinations periodically to review and ensure the continued compliance of Trading License Holders with the MOS through its RBS program.

The MOS as well as other guidance documents issued by NGX emphasize the need for Business Continuity and Disaster Recovery Plans, which must be tested for effectiveness bi-annually to facilitate recoverability of business operations in the event of a crisis. In the near future, there will be an increased focus on digital assets and client offerings.

I. DIGITAL TRADING APPLICATIONS

NGX’ Rules on Online Trading Portals which prescribes requirements for firms’ infrastructure, Know Your Customer (KYC), risk management and supervisory controls and other miscellaneous matters for firms operating online trading portals became effective on 21 October 2019.

The rules require Trading License Holders to:

a. Inform NGX RegCo about their intention to operate a digital trading application;

b. Subject the digital application to Vulnerability Assessment and Penetration Testing (VAPT) at least twice a year and submit reports to NGX RegCo;

c. Maintain strong password protection and authentication in line with industry standards;

d. Monitor clients’ transactions on the application through an Authorized Dealing Clerk (ADC); and

e. Implement robust risk management systems, and clearly display information on fees and complaints management procedures

NGX RegCo will continue to enforce the requirements of the Rules in 2023, which will include the application of the applicable penalties for breaches.

II. CYBER SECURITY

In recent years, NGX has observed an increase in the adoption of technology by Trading License Holders employing digital platforms in carrying out their day-to-day activities (i.e. trading, operations, front and back-office functions).

This has also been accompanied by the switch from physical servers to the use of cloud-based services to host databases and client information.

A growing number of firms have adopted the hybrid work model in their business activities.

This state of affairs results in higher risks of cybersecurity breaches and exposure to cybersecurity attacks, including cyber-enabled fraud and crime.

Consequently, Trading License Holders are required to institute controls to ensure the security of their Information Systems as well

\(^2\) These standards address five broad areas (Manpower and Equipment, Organizational Structure and Governance, Effective Processes, Global Competitiveness, and Technology).
as reduce the risk of cyberattacks arising from impersonation, ransomware, business electronic mail compromise and phishing. Firewalls must be installed to protect the network from intruders and possibly anti-phishing programs that attempt to identify phishing content contained in websites and electronic mails.

Firms are expected to intensify their cyber surveillance and promote cyber awareness and vigilance among staff and clientele to ensure that the human link is not the weakest in the chain of prevention. Where Information Technology (I.T.) capabilities are outsourced, proper third-party due diligence and reviews should be conducted to ensure that security standards are met.

NGX RegCo will continue to assess Trading License Holders on the conduct of VAPT of their online trading portals or digital trading applications in line with the requirements of The Exchange's rules; cyber security awareness programs; cyber threat surveillance and the protection of customer records and information.

III. BUSINESS CONTINUITY PLANNING

Trading License Holders are required to maintain sound business continuity practices and adequate disaster testing procedures.

They are also encouraged to ensure their business operations are as crisis-proof as possible leveraging on the benefits provided by technology (where applicable) to support all aspects of the business and restore client service and other operations as quickly as possible in the event of disruptions. In addition, business continuity planning should be all-encompassing including aspects of the business with low technology requirements to achieve full restoration when required. This capability is further enhanced by the regular testing of the adequacy and effectiveness of the Business Continuity Plan.

Moreover, the Minimum Operating Standards (MOS) and Rule 4.1: Requirement for Commencement of Operations, Rulebook of The Exchange, 2015 (Dealing Members’ Rules) require Trading License Holders to have a Business Continuity Plan (BCP) with scheduled simulation testing, to ascertain the adequacy and reliability of the plan at least semi-annually or in the event of changes in technology or business processes.

2. MARKET INTEGRITY

The integrity of the market and investor confidence is necessary to ensure the stability of the Capital Market. NGX RegCo will continue to focus on the following

I. INSIDER DEALING AND SUBSTANTIAL SHAREHOLDING DISCLOSURE

Trading License Holders are required to disclose to NGX transactions by their clients who are considered Insiders of listed companies as defined by Section 315 of the Investments and Securities Act (ISA), 2007, Rule 400(3) of the SEC Consolidated Rules, 2013 and the Listing Requirements: Section B: Definitions, Rulebook of The Exchange, 2015 (Issuers’ Rules).

In addition, Trading License Holders are reminded of their obligation to notify NGX of share purchases for any client that holds or acquires five per-cent (5%) or above of the issued share capital of a listed company in line with Rule 17.21(c): Confidentiality of Information, Rulebook of The Exchange, transaction or can be accumulated over multiple transactions.

Also, all clients’ direct and indirect shareholdings should be considered in determining whether or not the client has acquired 5% of a listed company. Trading
License Holders are encouraged to make disclosures in line with the aforementioned rules to aid NGX RegCo’s effort in ensuring a fair and orderly market.

Firms should therefore ensure that their securities trading policies are exhaustive; and that insiders are continuously engaged on their obligations to comply and make timely disclosures. At the minimum, a securities trading policy should include provisions to address the following:

a. disclosure of insider dealings in a listed company’s shares within a required timeframe that is compliant with the applicable rules;

b. handling of insider information;

c. maintenance of an insider list and updating the NGX with same; and

d. a process for enforcement of confidentiality requirements against external advisers and others that receive confidential information.

II. MARKET MANIPULATION

Market Manipulation is a deliberate attempt to interfere with the free and fair operations of the market and to create artificial, false or misleading appearances with respect to the price or market for a security.

Our Market Control, Surveillance, Monitoring and Examination programs will be strengthened to further eliminate these sharp practices from the market.

III. FINANCIAL REPORTING

All Trading License Holders are required to ensure that financial statements are prepared and submitted to NGX RegCo on an interim and/or annual basis. The regulatory report should be devoid of material misstatements and errors, as required by Rule 7.6: Prohibition of Manipulation of Financial Statements, Rulebook of The Exchange, 2015 (Dealing Members’ Rules) as amended. Similarly, any contraventions and fines must be disclosed in their Audited Financial Statements in line with Rule 7.4 (e): Submission of Financial and Non-Financial Reports to The Exchange, Rulebook of The Exchange, 2015 (Dealing Members’ Rules).

Our 2023 reviews of the regulatory reports will focus on accuracy, completeness and ownership of the balances reported including the classification, recognition and measurement of financial assets and financial liabilities (including the computation of expected credit losses where applicable), fair value measurements and recorded impairments, liquidity and capital adequacy, the sufficiency of disclosures in line with relevant International Financial Reporting Standards (IFRS) and rules of NGX, and compliance with the financial reporting requirements of Companies and Allied Matters Act (CAMA) 2020, FRCN Act 2011 and other applicable regulations within the financial services industry.

IV. FRAUD DETECTION AND PREVENTION

Trading License Holders are expected to develop and implement robust internal control systems in order to prevent and detect fraudulent transactions.

NGX RegCo will continue to utilize and enhance quantitative and qualitative tools to identify market participants engaged in fraudulent or unethical behaviors.

At all times, Trading License Holders are required to ensure that their current operational practices comply with NGX’s applicable Rules on Supervision and
of Customer Accounts Rulebook of The Exchange 2015 (Dealing Members’ Rules). Trading License Holders are expected to pay particular attention to potential financial crimes likely to be caused by opportunistic fraudsters and criminals (e.g. social engineering and phishing) that may prey upon clients’ fears and uncertainties.

V. ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT)

As part of efforts to promote integrity and stability in the financial system, NGX RegCo will continue to focus on activities that will enhance AML/CFT processes. These include Trading License Holders AML/CFT programs, implementation of Know Your Client (KYC) and Customer Due Diligence (CDD) requirements, record keeping, suspicious activity identification and reporting to the relevant authorities.

3. TRADING LICENSE HOLDERS

I. RISK MANAGEMENT AND CONTROL FUNCTIONS

It remains imperative for Trading License Holders to implement functional risk management practices suitable to the firm’s size, complexity and scale of operations. This entails appropriate set-up and performance across the Board of Directors, Senior Management, Compliance, Risk Management, Internal Control, Internal Audit and Financial Control functions ensuring that the firm is well prepared to navigate the dynamic business landscape.

This year, NGX RegCo will engage firms to understand how they are implementing their risk management frameworks to address the risks associated with trading, operations, technology and regulatory matters.

II. INSURANCE PRODUCT

Trading License Holders are required to maintain an insurance policy issued by approved insurance companies which meets the NGX and the SEC requirements to cover the risks associated with stockbroking operations. In compliance with SEC rule 27A.

Trading License Holders are thus expected to obtain insurance cover in respect of the following:

a. Fidelity Guarantee against theft, fraud or dishonest acts of employees and sponsored individuals of the company.

b. Professional Indemnity in respect of loss arising from any claim(s) for any act or omission or breach of duty by officers, employees and sponsored individuals.

c. Directors and Officers liability in respect of claims against wrongful acts committed in the capacity of a Director.

d. Settlement of investors' claims for pecuniary losses suffered in the circumstances listed in Sections 198 and 212 of the ISA.

e. Legal, or other third-party claims.

f. Other risks associated with its products and services.

g. The insurance policy shall cover not less than 20% of the minimum paid up capital of the Trading License Holder.

This year, NGX RegCo will continue to monitor Trading License Holders compliance with the rules relating to the insurance product and communicate additional providers to these firms.

III. COMINGLING OF CLIENTS’ ASSETS AND SEGREGATION OF ACCOUNTS

NGX RegCo will continue to monitor their
Trading License Holders’ compliance with obligation to maintain separate accounts designed to avoid the commingling of customer assets with firms’ working capital and other funds.

Firms will be required to provide clear trade transaction records for fund movements from client bank accounts to any other bank account(s).

An assessment will be conducted by NGX RegCo to ascertain whether or not funds deposited by clients for purchase of securities and proceeds of sales on behalf of clients are utilized in the appropriate manner and that firms’ bank accounts are properly designated as required in compliance with Rule 11.6: Maintenance and Segregation of Client’s Account, and Rule 11.8: Unauthorized Use of Client Funds; Segregation of Client Funds, Rulebook of The Exchange, 2015 (Dealing Members’ Rules) as amended.

IV. CLIENT COMMUNICATIONS

NGX requires that all communications with clients (investors and the public) of Trading License Holders’ must be based on principles of fair dealing and good faith, provide a sound basis for evaluating the facts “in regard to any particular security or type of security, industry, or service” and include all “material fact(s) or qualification(s)” necessary to ensure such communications are not misleading.

NGX RegCo encourages Trading License Holders to display that disclosures “prominently” identify the unique risks and speculative nature of various investments products.

NGXRegCo will continue to monitor how firms interact and communicate with clients, from initial advertisements through the opening of accounts, implementation of instructions/trade mandates recommendations, etc.

V. GROUP OPERATIONS

In the course of our regulatory activities, NGX RegCo has observed that a number of Trading License Holders operate corporate group structures that include other financial services firms.

Trading License Holders are reminded of the need to establish appropriate controls and governance structures to ensure that their respective activities and financial information are appropriately ring fenced from other affiliated financial services firms.

All financial information should be adequately captured and reported in their Audited Financial Statements and other regulatory returns. Trading License Holders should act only within the ambit of their registered function with the SEC.

VI. GOVERNANCE AND CORPORATE RESTRUCTURING

Sound governance arrangements, robust internal controls and reliable data are crucial to fostering adequate decision-making and mitigating excessive risk-taking both in normal and crisis times. The strength and effectiveness of Board oversight is an essential driver to overcome market participation shortcomings, and in this context, assessing governance will be a focus of supervision.

The Board and Senior Management will be expected to have access to, evaluate, and effectively challenge the accuracy of risk information and internal control functions, especially information related to investors, new products and due diligence practices, relating to operational capacity and the adequacy of provisioning mechanisms in the current environment.

Furthermore, Trading License Holders may pursue corporate restructuring strategies in response to general market
or economic forces and trends, changes in ownership, changes in corporate strategy, etc. Whatever the reason for pursuing a restructuring,

Trading License Holders are required to ensure compliance with NGX’s Rules on Ownership and Material Changes. These include Rule 6.7: Mode of Changing of Directors and Shareholders, Rule 6.10: Approval of The Exchange about Material Changes and Rule 6.13: Specific Actions Requiring Prior Consent of The Exchange, Rulebook of The Exchange, 2015 (Dealing Members’ Rules).

VII. THIRD PARTY BANK TRANSACTIONS

NGX RegCo will continue to monitor Trading License Holders’ compliance with the rules on the transfer of sales proceeds and client balances. Such funds are expected to be transferred to the bank account of the client obtained at Know Your Client (KYC) and not to any other third party bank account(s).

An assessment will be conducted by NGX RegCo to ascertain whether or not sales proceeds or existing cash balances of clients are paid to their respective bank accounts obtained during KYC in compliance with Rule 11.14: Third Party Transactions (Sales Proceeds and transfer of Client Balance in the Name of Third Party, Rulebook of The Exchange, 2015 (Dealing Members’ Rules) as amended.

VIII. CUSTODIAL ACCOUNT FOR MINORS

Trading License Holders are enjoined to re-acquaint themselves with the Rules, upgrade their systems and internal processes to comply with the extant rules on the management of account opened behalf of minors (Individuals less than eighteen (18) years of age).

Trading License Holders are required to update the KYC details for minor accounts and tag them as minor accounts and are required to continue to update it.

Examinations of Trading License Holders will include a review of accounts for minors to confirm that the accounts are properly managed in line with the rules. Focus in this regard will be to determine whether TLHs have continued to update existing minor accounts to conform and that new accounts created for minors comply with the rules on custodial account for minors.

4. EMERGING TRENDS

NGX RegCo has observed emerging trends and has recognized the need for increased focus in these new areas of development. These new market trends will be monitored in compliance with laws, regulations and rules, and where appropriate, also exercise regulatory powers to enforce actions and impose sanctions. Some of these trends are listed below:

I. EXCHANGE TRADED DERIVATIVES

NGX continues to create and introduce new products to excite investors and appeal to a varied set of investors and market participants. On 14 April 2022, NGX launched the Exchange Traded Derivatives (ETD) market to align with its commitment to building a market that thrives on innovation and responds to the needs of stakeholders in accessing and using capital.

The initiative, which is the first of its kind in West Africa, is geared towards deepening, enhancing liquidity and improving risk management in the Nigerian Capital market.
As a robust regulatory framework is critical to the trading in and enforcement of obligations with respect to derivative products, NGX has developed and implemented an ETD Market Rulebook accompanied by a detailed Interpretative Guidance (IG) to the ETD Rules.

The Interpretative Guidance provides clarity on the expectations of NGX from its stakeholders in the Derivatives Market. NGX RegCo will continue to review applications and assess the eligibility of firms interested in becoming a Derivatives Market Trading Member before commencement of trading in Derivatives. We will also monitor the continued compliance of Derivatives Market Trading Members with the applicable rules.

II. SUSTAINABLE FINANCE PRINCIPLES

Sustainability and sustainable business reporting has in recent times gained the attention of policy makers, market regulators, businesses and investors. This demonstrates that, though not always mutually co-existent, responsibility and are not incompatible but can indeed be complementary.

For NGX, there are two (2) guidelines which provide a roadmap to companies and businesses on the adoption of sustainability practices. These are the Guidelines on Sustainable Financial Principles for the Nigerian Capital Market issued by the SEC in 2021 and the Sustainability Disclosure Guidelines issued by NGX in 2018.

NGX RegCo will continue to engage stakeholders in this regard, encourage the implementation of sustainability guidelines and provide support where applicable to firms as they commence or continue the journey to business sustainability.

III. SPONSORED ACCESS/DIRECT MARKET ACCESS

In a bid to promote cross border trading in the Nigerian Capital Market, Sponsored Access and Direct Market Access are market initiatives designed to establish a harmonized regulatory environment for the issuance and trading of securities across selected Securities Exchanges in various African countries.

There are currently two (2) programs, the West African Capital Markets Integration (WACMI) program and the African Exchanges Linkage Project (AELP), that Trading License Holders are eligible to participate in to enable them facilitate cross-border trading and free movement of investments on the continent. Furthermore, the launch of the Pan African Payment Settlement System (PAPSS) will enable efficient cross-border payments across capital markets in Africa by providing a faster, easier, and cheaper means of transferring funds in cross-border securities transactions within Africa.

NGX RegCo will review applications and assess the arrangements between Trading License Holders and other African Brokerage firms (Foreign Brokers) interested in the program(s) and monitor the compliance of Trading License Holders with regulatory requirements in line with the applicable rules.

5. CONCLUSION

NGX RegCo encourages all Trading License Holders to continue to pay attention to client needs, keep up with regulatory changes, and engage in continuous capacity building and development.

We shall continue to monitor events closely to ensure that the Nigerian Capital Market remains fair and orderly in the best interest of all market participants.
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