**NGX Equity Market Making Guidelines**

1. **Introduction**
   1. **Purpose**

These guidelines supplement the Amendments to Dealing Members / Trading License Holders’ Rules - Chapter 8: MARKET MAKING aimed at increasing market efficiency and benefiting all market participants. These guidelines do not supersede The Nigerian Exchange Limited’s Rules and should be read in conjunction with related provisions of The Exchange’s Rulebook. All Market Makers shall operate within the regulatory framework as envisaged and laid out in The Exchange’s Rulebook and these guidelines as may be reviewed from time to time.

* 1. **Definitions**

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| **Best Bid (BB):** | the highest quoted price a market participant is willing to pay for a particular security. |
| **Best Offer (BO):** | the lowest quoted price a market participant is willing to sell a particular security. |
| **Instruments:** | securities as defined by the Investment and Securities Act as may be amended from time to time. |
| **General Principles:** | the primary responsibilities of Market Makers are to maintain a fair and orderly market in the securities they make market in, make a positive contribution to the functioning of the market, ensure that trading for the Market Maker's own account is done with reasonable care and in a professional manner, and is consistent with promoting the integrity of the capital market |
| **Market Making Regulations:** | This includes but is not limited to The Exchange’s Market Making Rules, Guidelines, Circulars etc. that may be released by The Exchange from time to time. |
| **Market Maker:** | Market Maker shall mean any Trading License Holder which has undertaken and been appointed by The Exchange to enhance market liquidity by providing two-way quotes on a regular and continuous basis. |
| **Market Making:** | Unless the context otherwise requires, refers to the act of entering bid and offer prices in The Exchange’s trading facilities for a specified security based on the requirements stipulated by The Exchange. |
| **NGX:** | Nigerian Exchange Limited or The Exchange |
| **SEC:** | the Securities and Exchange Commission |
| **Specified Security:** | the security specified by The Exchange as available for market making. |

1. **Application Procedure**
   1. 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.
   2. For an application to be approved, an applicant must demonstrate the following:
      * 1. that it is capable of performing market making activity; and
        2. that it has sufficient human resource to perform such functions.

When approving, The Exchange will consider, among other things, the Applicant’s personnel experience, disciplinary history and Issuers preference.

* 1. The Exchange’s Market Maker Application Form can be accessed on the Exchange’s website and completed applications may be delivered by email, or directly delivered to the offices of The Exchange via the following contact information.

[Secondarymarkets@ngxgroup.com](mailto:Secondarymarkets@ngxgroup.com)

+234-1-4489937

Stock Exchange House

2-4 Customs Street, Lagos, Nigeria

[contactcenter@ngxgroup.com](mailto:contactcenter@ngxgroup.com)

www.ngxgroup.com

1. **Selection of Securities**
   1. All Equity securities listed on the Exchange will be segmented into 3 classes (A, B, C) based on their liquidity.
   2. 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).
   3. Subsequently Market Makers may include additional securities of obligation from any class as they deem suitable.
   4. The Exchange shall publish and regularly update the list of Market Makers and relevant information relating to their activities.
   5. Market Makers are expected to have at least one security across each liquidity classification. The Exchange will review the position of Market Makers every half year and give market makers 3 months to meet up with the security selection requirement
2. **Minimum Capital Requirement**
   1. Market Makers shall meet the minimum net liquid capital required for market makers.
      1. This will be the greater of:

* 0.02% of quarterly average free float adjusted capitalization (FFAC) of each security; or
* Two hundred million naira (N200,000,000.00) for the minimum basket of 3 mandatory securities specified in section 3.2 above.
  + 1. For Every additional security, each MM will be required to increase its net liquid capital by 0.02% of the quarterly average free float adjusted capitalization (FFAC) of the additional security.
    2. At initiation each MM is required to select a minimum of 3 securities – one from each of the Exchange’s liquidity classification: liquid, less liquid and illiquid.
    3. Section 4.1.1 will apply to the first 3 securities selected and section 4.1.2 will apply to additional security selections.
  1. Compliance with the minimum capital requirement stated above by each Market Maker will be reviewed quarterly and the following shall apply to MMs who fall short:

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| S/n | Compliance Status with the Minimum Capital Requirement | Effect |
| 1 | Non-compliance for two consecutive quarters | Reminder |
| 2 | Non-compliance for three consecutive quarters | Restriction on Market Making activity |
| 3 | Non-compliance for four consecutive quarters | Withdrawal of Market Making Registration |

1. **Obligations**
   1. Continuous two-way quote obligation
   2. Spread Requirement: market makers are obligated to keep their quoted offer price at defined percentage above their bid to ensure that a market maker will be quoting at or very near the best bid and offer
      * 1. Set maximum spread width at different price bands
        2. Spread widths will be based on 3 Liquidity Classes (see table below)

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| **Liquidity Class** | **Maximum Spread Width** |
| Liquid (A) | 3% |
| Less Liquid (B) | 5% |
| Illiquid (C) | Unspecified |

* + - 1. Maximum Spreads widths will be set/reviewed by **NGX** bi-annually based on historic market spread/market conditions
      2. Spreads widths will be reviewed from time to time (should securities price behaviour change)
      3. Spread width can be widened/suspended during volatile periods
  1. Percentage of time in Market: A market maker must maintain an executable quote in each security in which it is registered for a mandatory period.
     + 1. Mandatory period should be 75% of trading day (excluding the auction sessions)
  2. Minimum Quote Size: Market maker quotes must be for a minimum number of shares

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| --- | --- |
| Price Band | Share Units |
| High | 40 |
| Medium | 100 |
| Low | 500 |

* 1. Minimum Commitment Period: MMs must meet obligation for at least 6 months once given licence and voluntary de-registration within this period is not allowed

1. **Exemptions from Market Making Obligations**
   1. The Exchange may at its discretion, grant temporary exemptions from the aforesaid minimum conditions for temporary deviations where extraordinary market situations exist or where the Market Maker requests an exemption due to situations such as system problem.
   2. The Exchanges may grant exemptions from the aforesaid minimum conditions and set individual terms for market making on ad hoc basis in the course of taking a listing decision for a particular Issuer.
   3. The Market Making commitment of a Market Maker shall be suspended during a trading halt, suspension or pause, and shall not re-commence until after the first regular-way transaction following that halt, suspension or pause. The quoting obligation will commence as soon as there has been a regular-way transaction on the security.
2. **Incentives**
   1. Market Makers may make prices outside of the order book and execute negotiated transactions in other to manage inventory for the securities in their baskets ONLY. Normal transaction fees will apply on negotiated trades.
   2. Transaction Fees will be waived on Market Making Transactions
   3. A Market Maker Leadership Board will be published periodically by The Exchange
3. **Penalties**
   1. A warning letter will be sent to Market Makers who fall short of meeting their obligations more than 3 out of 6 months in any of the securities they have selected to be Market Makers on.
   2. Market Makers who fall short of meeting their obligations for more than 6 months (whether consecutive or non-consecutive) in one year will be deregistered as Market Makers.
4. **Exiting the Program**
   1. Where a Market Maker wishes to resign from its role as a Market Maker of a specified security, it shall give a written notice to The Exchange of its intention to resign not less than thirty (30) calendar days prior to the proposed date of resignation.
   2. The Exchange may automatically suspend or terminate a Market Maker or restrict its market making activities, upon the occurrence of all, or any of the following events:
      1. The Market Maker has been wound up.
      2. A receiver/manager, provisional liquidator or liquidator has been appointed for the Market Maker;
      3. The Market Maker fails to fulfil any of the requirements specified in any of the Market Making Regulations;
      4. The Market Maker has had disciplinary action taken against it and its officers for breaches involving dishonesty or fraud in or outside Nigeria;
      5. Continuously breaches its obligations in line with Section 7 and 8 above;
      6. The Market Maker’s Trading License has been suspended or revoked pursuant to the provisions of the Rulebook of The Exchange.
   3. Market Makers who exit the program either voluntarily or involuntarily may not re-register as Market Makers until after 6 months.