

# **RULEBOOK OF THE THE NIGERIAN STOCK EXCHANGE DERIVATIVES MARKET<sup>1</sup>**

## **<sup>1</sup> Rule Making History**

1. The draft Rules were presented to the Rules and Adjudication Committee of Council (RAC) at the RAC Meeting of 10 November 2017, and approved for exposure to stakeholders for comments;
2. The draft Rules were exposed for stakeholders' comments from 22 December 2017 to 31 January 2018;
3. The RAC considered the draft Rules, and stakeholders' comments thereon at its Meeting of 28 February 2018, and approved the draft Rules for submission to the National Council of The Exchange (Council).
4. The Council approved the draft Rules at its Meeting of 28 March 2018 for submission to the Securities and Exchange Commission (SEC).
5. The Council approved Rules were submitted to the SEC for approval on 10 April 2018.
6. The SEC approved the Rules on 19 August 2019.

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## **INTRODUCTION**

The Nigerian Stock Exchange (“The Exchange” or “the NSE”) is a Securities Exchange and a Self-Regulatory Organisation (“SRO”) under the Investments and Securities Act (ISA) and is registered as such by the Securities and Exchange Commission (SEC).

The Exchange provides trading services in its capacity as an SRO and a Securities Exchange subject to the supervision of the SEC and the requirements of the SEC Rules and Regulations made pursuant to the ISA.

This Derivatives Rulebook is made pursuant to the Memorandum and Articles of Association of the NSE and is subject to the provisions of the ISA, and the SEC Rules made thereunder.

The Exchange has made arrangements for Clearing Services for Listed Products to be provided by a Designated Clearing House to act as a Central Counterparty Clearing House (CCP) for The Exchange’s Derivatives Market. The Designated Clearing House is registered by the SEC pursuant to the ISA.

The Exchange shall make and administer Rules, Regulations and Guidelines for regulation of trading in derivatives on NSE Platform and the activities of its Members, and shall exercise all powers, authorities and discretions in that regard.

This Derivatives Rulebook shall be binding upon Members in their relationship with The Exchange, as between themselves as Members, and as relates to the business which they conduct as Members of The Exchange with the general public.

This Derivatives Rulebook shall be binding on any Person who utilises the services of a Member for a derivatives transaction or who concludes a derivatives transaction with a Member in the course of the Member’s business or on whose behalf derivatives transactions are carried out.

Every transaction in derivatives entered into by a Member is entered into subject to the provisions of this Derivatives Rulebook and it must be concluded on this specific condition.

The interpretation and enforcement of this Derivatives Rulebook vests in the National Council of The Exchange and any Person and/or body to whom it delegates this power.

This Derivatives Rulebook shall be construed and interpreted so as to promote and maintain at all times the integrity of the market managed by The Exchange, as well as to ensure that the business carried out by means of the NSE Platform is conducted in a fair, just and equitable manner and so as to afford proper protection to investors. Where a matter arises in respect of which no provision or adequate provisions are made in this Derivatives Rulebook, The

Exchange shall adopt such reasonable procedure to regulate the matter and the conduct of business on its market in accordance with these principles.

Except where the provisions of this Derivatives Rulebook express to the contrary, they shall be construed in accordance with, and governed by, the laws of the Federal Republic of Nigeria.

The Exchange shall not be liable to any Person in damages for anything done or omitted to be done in the creation or discharge of this Derivatives Rulebook and accordingly no claim or recourse in respect of or in relation to any dealing in derivatives or any matter connected therewith shall lie against The Exchange.

No member of the National Council, member of the Committees of the National Council, director, official, other officer, employee or member of any investigative or disciplinary committees or body of The Exchange/acting for The Exchange is liable for any loss sustained by or damage caused to any Person as a result of anything done or omitted to be done by them or The Exchange in the creation or discharge of this Derivatives Rulebook or in respect of or in relation to or in connection with any dealing in derivatives.

No claim, suit, prosecution or other legal proceedings shall lie against The Exchange or any member of the National Council, member of the Committees of the National Council, director, official, other officer, employee or member of any investigative or disciplinary committees or body of The Exchange/acting for The Exchange in respect of anything which is done or intended to be done or omitted to be done in pursuance of any order or other binding directive issued to The Exchange under any law or delegated legislation for the time being in force.

## **CHAPTER 1**

### **DEFINITIONS**

In this Derivatives Rulebook, unless the context otherwise requires the following terms shall have the meanings given below:

**Acceptance** has the meaning set out Rule 4.1.2 of this Derivatives Rulebook, and "**Accepted**" shall be interpreted accordingly;

**Account** means an Account held by a Clearing Member at the Designated Clearing House in which Transactions in derivatives may be accepted whether on its own account or on behalf of a Client or by a Member for whom the Clearing Member acts as such, pursuant to the Designated Clearing House Rules;

**Act** or **ISA** means the Investments and Securities Act, No. 2007, as may from time to time be amended, supplemented or re-enacted;

**Affiliate** means, in relation to any Person, a subsidiary of that Person or a holding company of that Person or any other subsidiary of that holding company;

**Affected Trade** means each Trade to which a Defaulting Member is a party;

**Assignment (and Assigned)** means the stipulation by the Designated Clearinghouse that a Member with a short option position buy (in the case of a put) or sell (in the case of a call) the underlying security when an option is exercised by the holder of the long position.

**Authorised Person** means an employee of a Member who is appointed and empowered by the Member to make representations to The Exchange on behalf of the Member, in accordance with the provisions of this Derivatives Rulebook;

**Back-Off Transaction** means a Trade formed between a Clearing Member and a Non-Clearing Member pursuant to Rule 4.1.5 of the Derivatives Rulebook;

**Bilaterally Negotiated Trade** means a Trade for which both Counterparties have agreed all details of the Trade prior to Trade Reporting to The Exchange;

**Block Trade** means any Transaction of the kind set out in Rule 5.6 of the Derivatives Rulebook;

**Broker** means a Member on The Exchange Derivatives Market who may enter into Trades on behalf of Clients in accordance with The Exchange Derivatives Rules;

**Broker-Dealer** means a Member on The Exchange Derivatives Market who may enter into Trades for its own account or on behalf of its Clients in accordance with this Derivatives Rulebook;

**Business Day** means any day on which banks are open for business and/or which is not a public holiday declared by the Federal Government of Nigeria and/or which The Exchange is not closed for business;

**Business Hours** means 9.30 – 14:30 hours WAT or such time as may be further detailed during which Products are available, in the relevant Products Specifications;

**Call Option or Call Option Trade** means an Option Trade which gives the Holder the right but not the obligation to buy, at the Strike Price, the Underlying from the Writer;

**Central Counterparty** means a financial institution such as the Designated Clearing House that performs Clearing Services following an open offer or upon novation of Transactions, and subsequently becomes the Counterparty to all Trades arising from Transactions on The Exchange, also referred to as the Central Counterparty, Designated Clearing House or the Clearing House;

**Clearing** means the process by which the Designated Clearing House becomes the buyer to the seller and the seller to the buyer in every Transaction whereupon the Clearing Member guarantees to the Designated Clearing House all obligations arising out of any position resulting from such Transaction in terms of this Derivatives Rulebook. Clearing is also the process by which the respective obligations of the buyer and the seller are established. That is, what each of the buyer and seller is obliged to pay/deliver, and by when, in order to settle a Trade. The Clearing process may also involve the netting of obligations of the buyer and the seller to the smallest number of obligations to be performed at Settlement;

**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;

**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;

**Clearing House Default Rules** means the default rules specified by the Designated Clearing House as its default rules;

**Clearing Member (“CM”)** means a Member which has entered into a Clearing House Agreement with the Designated Clearing House;

**Clearing Services** means the services provided by the Designated Clearing House to Clearing Members in terms of the Designated Clearing House Rules, to facilitate Clearing of Transactions in Derivatives;

**Cleared Trade** means (a) the Transaction or Transactions which may result from the process of Acceptance set out in the Designated Clearing House Rules, upon or following execution; or (b) any other Transaction or Transactions which may be created between the Designated Clearing House and a Clearing Member in relation to a transaction by operation of the Designated Clearing House Rules, including, without limitation, any Transaction that results from any process under the Designated Clearing House Rules that varies, modifies, transfers, replaces, or novates any Transactions within (a) above or any Transaction that results from any netting or settlement-to-market process under the Designated Clearing House Rules..

**Client or Clients** means any person for whom a Member acts in relation to effecting trading, Clearing and Settlement of Transactions on The Exchange pursuant to this Derivatives Rulebook;

**Client Account** means the segregated Account in which Transactions are entered into by a Member on behalf of its own Clients, and accepted as such by the Designated Clearing House;

**Closing Transaction** means the closing of a position in a Listed Product;

**Collateral** means one or more of the forms of security accepted by the Designated Clearing House for such purposes;

**Combination Order** means an Order the terms of which stipulate that two or more Orders in different Series shall be executed simultaneously with other Orders forming part of the combination;

**Company** has the same meaning assigned to it in the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria, 2004;

**Counterparty** means the party on the opposite side of a Derivatives Transaction;

**Cross Trade** means a type of Bilaterally Negotiated Transaction in which the same Counterparty is on both sides of the Transaction;

**Daily Cash Settlement** means the process of cash settlement effected for a Futures Trade on each Business Day during its Lifetime in accordance with the provisions of this Derivatives Rulebook and Product Specifications for that Listed Product;

**Daily Settlement Amount** means the amount payable to or by a Member in relation to each Daily Cash Settlement;

**Daily Settlement Price** means the end-of-day price determined by The Exchange and used in determining the value of the daily obligations for settlement of open futures and options positions. The exact methodology to be used in the determination of the DSP will be set forth in the Product Specifications of the Listed Product;

**Dealer** means a Member on The Exchange Derivatives Market which may enter into Trades for its own account in accordance with this Exchange Derivatives Rules;

**Declaration of Default** has the meaning given in Rule 6.2.1 of the Derivatives Rulebook;

**Defaulting Member** means a Member on which The Exchange has served a Declaration of Default in accordance with Rule 6.2 of the Derivatives Rulebook;

**Delivery** means the process of delivering the Underlying specified in the Product Specification applicable to a Listed Product in exchange for payment of the Delivery Settlement Amount;

**Delivery Settlement Amount** means the amount payable by or to the Counterparties for the Delivery;

**Depository Bank** means the institution that issues a specific Depository Receipt on behalf of the company issuing the Underlying. The Depository Bank maintains a holding of securities in the Underlying on which it is able to issue Depository Receipts;

**Depository Receipts (DR)** means a Depository Receipt which is listed or traded on The Exchange's Order Book and which corresponds to a share, shares or to a percentage of a share of the company in question that is publicly traded;

**Designated Clearing House** means the Designated Clearing House recognized by The Exchange as the provider of Clearing Services to The Exchange;

**Designated Clearing House Rules** means the rules and procedures of the Designated Clearing House as amended from time to time;

**Designated Clearing House Default Rules** means the default rules specified by the Designated Clearing House as its default rules;

**Dividend** means unless otherwise specified, an Ordinary Dividend;

**Event of Default** has the meaning given in Rule 6.1.3 of the Derivatives Rulebook;

**Exchange or The Exchange** means The Nigerian Stock Exchange or “NSE”;

**Exchange Default Rules** means the rules stipulated in Chapter 6 of this Derivatives Rulebook;

**Exchange Derivatives Market** means the market operated by the NSE to facilitate trading in Derivatives;

**Exchange Derivatives Rulebook or Rules** means the derivatives rules of The Exchange as set out herein as they may be amended from time to time;

**Exchange Derivatives Rules** (“Rules”) means:

- a. where used in reference to one or more provisions of The Exchange Derivatives Rulebook, those provisions of The Exchange Derivatives Rulebook; or
- b. otherwise, The Exchange Derivatives Rulebook, the Product Specification, the Procedures and any Notices issued pursuant to The Exchange Derivatives Rulebook and, for the purposes of any Rules concerning non-compliance with or breach of or failure to discharge any of The Exchange Derivatives Rules, shall include provisions of the Membership Agreement;

**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;

**Expiration** means the date that a Listed Product is due for Settlement or Exercise;

**Expiration Day** means the date on which Expiration occurs;

**Expiration Month** means the month in which the Expiration Day falls;

**Expiration Settlement Amount** means the monetary amount due to or payable by a Member on expiration of a cash settled Listed Product as specified in the relevant Statement;

**Expiration Settlement** means the procedures for final Settlement of a Product on Expiration provided for in this Exchange Derivatives Rules and the Designated Clearing House Rules;

**Expiration Settlement Day** in relation to a Series, means the day on which final Settlement of Transactions in such Series which have proceeded to Expiration Settlement is to be performed. The given day will be specified in the Product Specifications of each Product;

**Expiry Index** means The Exchange's expiry indices published by The Exchange which facilitate the calculation of the Expiry Settlement Price for the relevant Trades;

**Expiration Settlement Price** means the price of the Underlying at the Expiration of an Option or Future, as further described in the relevant terms of the Product Specification;

**Fair Value** means the theoretical price of a Listed Product calculated using the following elements: the value of the Underlying, applicable interest rate, time to maturity, implied volatility (if applicable), Dividend amount and ex Dividend day;

**Futures Trade** means 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;

**Futures Price** in relation to a Futures Trade, means the level (price) at which the Counterparties agree to Trade;

**Holder or Long Party** in relation to an Options Trade is a party which will have the right to Exercise on Expiration.

**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;

**Insolvency Event** means, in relation to a Person, that the Person ceases to trade, or is unable to pay its debts as they fall due or a meeting is convened for the purpose of its winding up pursuant to a court order or if it enters into liquidation whether compulsorily or voluntarily or compounds with its creditors generally or a liquidation or winding up or order is made in relation to it or it has a receiver or an official receiver appointed over all or a substantial part of its assets or a judicial, regulatory or administrative order is levied over all or a substantial part of its assets or any similar or analogous order is made or proceeding is commenced or officer is appointed or action is taken in Nigeria or outside Nigeria in consequence of inability to pay its debt;

**Issuer** means the entity that issues the Underlying on which a security or Depository Receipt is based;

**Law** means all law, statutory provisions and other rules, regulations and instruments in force from time to time, including the rules of the SEC;

**Lifetime**, in relation to a Listed Product, it means the period from the Listing Day to the Expiration Day inclusive;

**Limit Order** means an Order entered on to the Order Book at a specified price which will execute at that price or better, such that any residual is retained on the Order Book unless designated as an immediate Order; if not an immediate Order the residual remains until withdrawn or filled;

**Listed Product or 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;

**Listing Day** means the day a Listed Product is made available for trading and as specified on the individual Product Specifications;

**Long Party** means the buyer or “Holder” of a Trade. The Long Party will have the right to Exercise an Option or receive Delivery on Expiration of a Futures Trade.

**Long Position** means the position of the buyer or “Holder” of a Listed Product. Reference to a **Long Party** is reference to that party having a Long Position. The Long Party will have the right to Exercise an Option or receive delivery on Expiration of a Futures Trade;

**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;

**Market Data** means information relating to Listed Products which is published by or distributed by The Exchange;

**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;

**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;

**Market Maker Obligations Document** means the document, as amended from time to time, which contains further details in respect of Market Makers obligations. This document shall be read in conjunction with the Market Maker Agreement and The Exchange Derivatives Rulebook;

**Market Order** means an Order that executes at best available price until all volume on opposite side has been traded. The residual amount (if any) is converted to a Limit Order at the last price that the original Order was executed;

**Member** means 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 shall include a former Member where appropriate;

**Membership Agreement** means the agreement entered into between The Exchange and each Member setting out each party's obligations in respect of the trading of Listed Products or the services of The Exchange's Derivatives Market;

**Membership Criteria** means the criteria set out in Rule 3.2 of this Derivatives Rulebook;

**Membership Procedure** means the Membership Procedure in the Procedures;

**National Council** in relation to The Exchange means the persons from time to time (even if referred to as the Board of Directors of The Exchange) in whom the governance of The Exchange at the Board/Council level is vested, also referred to as **the Council**;

**NCM-CM Agreement** means tri-party agreement between Non-Clearing Member, the relevant Clearing Member and the Designated Clearing House. This must be in place before The Exchange allows the NCM to begin trading on The Exchange's Derivatives Market;

**Non-Clearing Member ("NCM")** means a Member which is not a member of the Designated Clearing House;

**Notice** means an announcement containing important and relevant market updates published on The Exchange's website or national newspaper or e-mailed to relevant recipients' or disseminated through other medium as The Exchange deems fit;

**NSE Platform** means the NSE electronic trading system including certain software owned by, or licensed to The Exchange by any third party, including any modification to the NSE Platform or any successor electronic trading platform on which the Products and Securities may be traded;

**Opening Transaction** means the opening of a position in a Listed Product;

**Options Trade or Option** means a Listed Product that confers the right but not the obligation to trade the Underlying at a pre-defined price on a pre-defined date in the future. Option Trade also means a Put Option Trade or a Call Option Trade, as the context may require;

**Options Type** means either a Call Option or a Put Option as the case may be;

**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.

**Ordinary Dividend** means any Dividend defined as ordinary by the Depository Bank or Issuer;

**Person** includes any individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, and a natural person whether in his capacity as trustee, executor, administrator, or other legal representative;

**Position Limits** means the limits imposed from time to time by The Exchange whether generally or in relation to a particular Member on the value of Transactions in Listed Products of any type which may be executed or held by that Member;

**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;

**Price Lists** means the lists of charges payable for services from The Exchange as published and amended by The Exchange from time to time;

**Procedures** means the Procedures of The Exchange Derivatives Market published as such by The Exchange from time to time;

**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;

**Proprietary Account** means an Account where Transactions entered into by a Member on its own Account, are to be accepted and recorded;

**Protest** means a request submitted by a Member to The Exchange requesting the cancellation or amendment of an incorrect Acceptance or the Acceptance of a Transaction which had been omitted, or a request for an amendment of an incorrectly executed or non-executed Exercise or cash Settlement;

**Put Option or Put Option Trade** means an Options Trade which gives the Holder the right, but not the obligation, to sell, the Underlying to the Writer at the Strike Price.;

**Related Agreements** means any other agreements The Exchange requires Members to enter into in relation to their activities on The Exchange, other than the Membership Agreement and The Exchange Derivatives Rules;

**Representative** means, when applied to any Person, any other Person which carries out or is responsible for any of that Person's functions and shall include each director, officer, employee, nominee or agent of such Person;

**Request for Re-Acceptance** means a request submitted by a Clearing Member to The Exchange seeking the Re-Acceptance of one or more Cleared Trades;

**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;

**SEC** means the Securities and Exchange Commission;

**SEC Rules** means the Rules and Regulations made pursuant to the Act by the SEC;

**Securities** have the same meaning as is assigned to it in the Act and refer to such Securities that are traded on the NSE Platform;

**Series** means a Listed Product represented by:

- a. for Futures Trade - the Underlying, month and year (and actual Expiration Day and Settlement Style for Tailor-made Products); and
- b. for Options - the Underlying, month, year, Strike Price and (Options Type, Settlement Style and actual Expiration Day for Tailor-made Products only);

**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;

**Settlement Day** means the day on which cash and/or the physical Underlying (where applicable) is moved between Members in fulfilment of trading obligations such as Assignment, Exercise, Opening Transactions, Closing Transactions etc;

**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;

**Short (Party)** means the seller or Writer of a Trade. The Short Party will be liable to be Exercised against an Option or make Delivery on Expiration of a Futures Trade.

**Short Position** means the position of the seller or “Writer” of a Listed Product. Reference to a **Short Party** is reference to that party having a Short Position. The Short Party may be assigned an Option or deliver on Expiration of a Futures Trade;

**Standard** means a type of Listed Product which has parameters that adhere to the Product Specifications.

**Standardised Series** means a Series which is automatically created in the NSE Platform as opposed to being manually created. Standardised Series are available for trading on the Order Book and through Block Trades;

**Statement** means a report generated by the Designated Clearing House confirming acceptance of a trade for Clearing.

**Strike Price** means the price at which an Options Trade will be settled if Exercised or Assigned. The right to buy or sell at the Strike Price is secured by the payment of a Premium. Details of the Premium payable are set out in the Products Specifications;

**Tailor-made** means non-standardised Products and are products which are non-Order Book

Products in which certain parameters have been altered with respect to standardised Products;

**Tick size** is the smallest increment by which the quoted price can change;

**Tick Value** is the monetary (notional) value of the smallest price increment;

**Trade** means an agreement for the sale or purchase of a Listed Product on The Exchange Derivatives Market between Members of The Exchange concluded by means of the facilities provided by The Exchange for the trading of such instruments in accordance with this Derivatives Rulebook;

**Trade Report** means a report in the template provided by The Exchange from time to time sent to The Exchange containing the terms of an agreed Bilaterally Negotiated Trade;

**Trade Reporting** means the act of informing (via electronic communication) The Exchange of a Bilaterally Negotiated Trade so that it can be considered for Acceptance;

**Transaction** means a Trade formed between two Members in accordance with Chapter 4 of this Exchange Derivatives Rulebook;

**Transaction Procedure** means the Transaction Procedure in the Procedures;

**Underlying** means the index, commodity, share, bond, interest rate, currency or any other instrument on which a Listed Product may be based;

**Writer**, in relation to an Options Trade, means the Member whose Options Trade is liable to be exercised in accordance with its terms. See Short (Party);

In this Exchange Derivatives Rulebook, unless otherwise specified:

- a. the table of contents and the headings are inserted for convenience only and do not affect the interpretation of the provisions of this Exchange Derivatives Rulebook as specified;
- b. references to Chapters are to the chapters of this Exchange Derivatives Rulebook;
- c. references to any document are to that document as from time to time amended, restated, novated or replaced, however fundamentally;
- d. references to a person include an individual, partnership, company, corporation, unincorporated body of persons and any government entity;
- e. references to any law or statutory provision include any subordinate legislation made under it;

- f. references to any law or statutory provision include any provision amending it or re-enacting it (whether with or without modification) which is the same as, or substantially similar to, the obligations imposed by the specified statute or statutory provision;
- g. references to time are to West African Time unless otherwise specified and are set out in the 24 hour clock convention;
- h. words importing the plural include the singular and vice versa and the use of any gender includes the other gender; and
- i. any reference to the discretion exercised by The Exchange shall mean The Exchange's sole, unfettered and absolute discretion.
- j. The Council and any Person and/or body to whom it delegates this power shall have the authority to interpret the provisions of this Derivatives Rulebook. Save as otherwise provided, any such interpretations shall be final and conclusive.
- k. 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.
- l. In the event of any conflict between:
  - i. The Exchange Derivatives Rulebook and the Membership Agreement, The Exchange Rulebook shall take precedence;
  - ii. The Exchange Derivatives Rulebook and the Procedures, The Exchange Derivatives Rulebook shall take precedence;
  - iii. The Exchange Derivatives Rulebook and a Notice of Amendment, The Exchange Rulebook shall take precedence except to the extent that a Notice of Amendment amends The Exchange Derivatives Rulebook;
  - iv. The Exchange Derivatives Rulebook and Product Specifications, the Product Specifications shall take precedence insofar as the conflict relates to the Listed Product or type of Trade governed by the Product Specification;
  - v. a Product Specification and the Designated Clearing House Rules, the Designated Clearing House Rules shall take precedence;
  - vi. The Exchange Derivatives Rules and any Related Agreement, The Exchange Derivatives Rules shall take precedence; and
  - vii. The Exchange Derivatives Rules and the Designated Clearing House Default Rules, the Designated Clearing House Default Rules shall take precedence.

## **CHAPTER 2**

### **GENERAL PROVISIONS**

#### **2.1 General**

- 2.1.1 This Exchange Derivatives Rulebook, together with the Membership Agreement and any other documentation giving contractual force pursuant to The Exchange Derivatives Rules, form a contract between The Exchange and each Member.
- 2.1.2 No person other than The Exchange has any obligation to Members under the provisions of The Exchange Derivatives Rules, the Membership Agreement or any Trades, Transactions or Back-Off Transactions. With the exception of Members, no other individual including a Client, shall have any rights under any law or agreement to enforce any provision of The Derivatives Exchange Rules or the Membership Agreement.
- 2.1.3 A Member shall not assign, transfer or create any encumbrance in relation to any of its rights or obligations under The Exchange Derivatives Rules, the Membership Agreement or any Trade, Transaction or Back-Off Transaction save as otherwise set out in The Exchange Derivatives Rules. Any purported assignment, transfer or creation of an encumbrance by a Member in contravention of the provisions of The Exchange Derivatives Rules shall be null and void.
- 2.1.4 The Exchange may terminate the membership of any Member for breach and/or noncompliance with The Exchange Derivatives Rules.

#### **2.2 Fees and Set-off**

##### **Fees**

- 2.2.1 Members are liable to pay such fees and charges as shall be specified in the Price Lists. The Exchange may amend its fees and charges at any time by way of a Notice and shall endeavour, but shall not be obliged, to give prior notice of any amendment by way of a Notice. Additional fee incentives for Market Makers may apply.
- 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.

- 2.2.3 Interest at a rate as advised by The Exchange from time to time will be charged on any due but unpaid amount from the last date on which the amount ought to have been paid under The Exchange Derivatives Rules until the date of payment compounded daily.
- 2.2.4 All amounts set out in The Exchange Derivatives Rules and elsewhere as being payable to The Exchange shall be deemed to be exclusive of any value added tax which is chargeable on the supply to which that amount relates. Accordingly, if value added tax is chargeable on any such supply, the relevant Member shall be responsible for paying it in addition to the amount stated as payable.
- 2.2.5 All amounts payable by Members in connection with the provisions of The Exchange Derivatives Rules and any Transaction, Back-Off transactions or Trade shall be paid without any deduction or withholding for or on account of tax unless such deduction or withholding is required by Law, in which case the amount of the payment due shall be increased to an amount which (after making the deduction or withholding) leaves an amount equal to payment which would have been due if no deduction or withholding had been made.
- 2.2.6 Where a Member fails to pay in accordance with The Exchange's Derivatives Rules, The Exchange may terminate its membership without prejudice to any other action which The Exchange may take.

#### **Set off**

- 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.
- 2.2.8 If the obligations in relation to Rule 2.2.7 of this Derivatives Rulebook are in different currencies, The Exchange may convert either obligation at such rate of exchange prevailing at the time of calculation for the purpose of the set off. The Exchange shall be entitled to instruct the Designated Clearing House, and the Designated Clearing House shall be entitled to make any necessary adjustments to the Clearing Member's Accounts resulting from the Exercise of this right of set off.
- 2.2.9 The rights of The Exchange under Rules 2.2.7 and 2.2.8 of this Derivatives Rulebook are without prejudice and in addition to any other rights of set-off, lien, netting,

liquidation, combination of accounts or appropriation, which The Exchange may have under The Derivatives Exchange Rules or otherwise.

### **Currency of payment**

2.2.10 Amounts payable to The Exchange shall be paid in the currency indicated by The Exchange. If a Member makes a payment in a currency other than that indicated, The Exchange may convert such amount at such rate prevailing at the time of the calculation as it shall reasonably select. The Member shall indemnify The Exchange against any loss which The Exchange may suffer as a result of such conversion.

### **2.3 Amendments**

2.3.1 The Exchange may amend This Exchange Derivatives Rules at any time by issuing a Notice setting out the text of the amended Exchange Derivatives Rules and, where appropriate, a brief explanation of the reason for the amendment.

2.3.2 Subject to Rule 2.3.5 of the Derivatives Rulebook, The Exchange will publish any proposed amendment to this Derivatives Rulebook for consultation and will invite Members to submit comments in writing within a specified deadline, save that The Exchange shall not be required to consult on any amendments to the Exchange Derivatives Rules which:

- a. are minor changes of an administrative or commercial character or where The Exchange reasonably considers that the amendment would not significantly affect the rights, obligations or liabilities of Members or that consultation is otherwise not appropriate;
- b. are considered by The Exchange necessary to ensure compliance with the Laws or a requirement of the SEC, The Exchange or any Member;
- c. are considered by The Exchange necessary as a result of an Event of Default; or
- d. are otherwise considered by The Exchange to be necessary for the purpose of mitigating a significant risk to The Exchange (including by mitigating a significant risk to a Member) provided that The Exchange shall consult with Members on the continued applicability of the amendment following the conclusion of the urgent situation.

2.3.3 The Exchange may consult on a proposed amendment to this Derivatives Rulebook with only a limited number of Members if it reasonably considers it appropriate to do so including where, in The Exchange's reasonable opinion, a proposed amendment will

affect a limited number of Members or in The Exchange's reasonable opinion is a limited technical amendment.

- 2.3.4 Subject to Rule 2.3.5 of this Derivatives Rulebook, a Notice setting out an amendment to this Derivatives Rulebook shall state the date from which such amendment comes into effect.
- 2.3.5 The Exchange may amend any Product Specification, the Procedures and Notices at any time by issuing a Notice setting out the text of the amended Product Specification, Procedure or Notice. Any such amendment shall have immediate effect unless otherwise stated in the Notice.
- 2.3.6 No Member shall be entitled to participate in The Exchange's Derivatives Market unless it has agreed to comply with The Exchange's Derivatives Rules and any amendments thereto. For the avoidance of doubt by continuing to participate in The Exchange's Derivatives Market a Member will be deemed to accept any amendments to The Exchange Derivatives Rules pursuant to Rules 2.3.1 and 2.3.5 of this Derivatives Rulebook.
- 2.3.7 No amendment to The Exchange Derivatives Rules shall have the effect of extinguishing any right or discharging any liability incurred under The Exchange Derivatives Rules before such amendment came into effect.
- 2.3.8 The Exchange shall by Notice published on its website or through any other medium it deems fit (including by sending e-mails to Members), notify Members of any changes in its Business Days and opening hours.
- 2.3.9 If at any time The Exchange decides to discontinue acting as an exchange, either generally or in relation to a particular type of Listed Product, it shall (where possible and as soon as reasonably practicable) give prior notice to Members of the proposed withdrawal date, by publishing a Notice on its website or through any other medium it deems fit (including by sending e-mails to Members).

## **2.4 Limitations of liability and indemnity**

- 2.4.1 The Exchange and each of its Affiliates and each of their respective Representatives shall not be liable to any Person for any losses, liabilities, damages, claims, costs or expenses arising from:
- a. any failure, malfunction, fault in delivery, delay, omission, suspension, inaccuracy, interruption, termination, or any other cause, in connection with the furnishing, performance, operation, maintenance, use of or inability to use,

- all or any part of any of the systems and services of The Exchange or services, equipment or facilities used to support such systems and services, including electronic order entry and delivery, trading through any electronic means, electronic communication of Market Data or information, workstations used by Members or Clients and authorised employees of Members or Clients, price reporting systems and any and all terminals, communications networks, central computers, software, hardware, firmware and printers relating thereto; or
- b. any failure or malfunction, fault in delivery, delay, omission, suspension inaccuracy, interruption or termination, or any other cause, of any system or service of The Exchange or services, equipment or facilities used to support such systems or services, caused by any third parties including independent software vendors and network providers; or
  - c. any inadvertent errors or inaccuracies in information used in any systems of the Exchange or provided by The Exchange or any Exchange systems, services or facilities; or
  - d. any unauthorised access to or unauthorised use of any Exchange systems, services or facilities by any third party; or
  - e. any error, delay or inaccuracy in the submission of an Order or the transmission of information; or
  - f. the acts or omissions of the Designated Clearing House, any Member, any Client or any third party and any of their respective Representatives;
  - g. any dispute relating to the validity, existence or terms of any Transaction, BackOff Transactions, Trade;
  - h. any inability to perform its obligations under these Exchange Derivatives Rules as a result of an event of *force majeure* (as defined in Exchange Rule 3.12.1(e));
  - i. participating in The Exchange's Derivatives Market, except for The Exchange's compensation obligations through its Investors' Protection Fund pursuant to the Investment and Securities Act; or
  - j. participating in The Exchange's Derivatives Market where such losses, damages, liabilities, claims, costs or expenses are covered by the Designated Clearing House pursuant to its rules.

- 2.4.2 The limitations of liability in Exchange Rule 2.4.1 shall apply whether:
- a. a claim arises in contract, tort, negligence, strict liability, breach of statutory duty, contribution or otherwise; or
  - b. a claim is brought directly or as a third party claim.
- 2.4.3 Regardless of whether The Exchange has been advised of the possibility of such loss or whether such loss otherwise could have been foreseen, neither the Exchange nor any of its Affiliates, nor any of their respective Representatives, shall in any circumstances be liable to a Member or any other Person for:
- a. loss of or anticipated loss of profit, loss of or anticipated loss of revenue, loss of use, business interruption, loss of use of any equipment, loss of any contract or other business opportunity or goodwill or punitive loss; or
  - b. indirect loss or consequential loss.

#### **No warranty**

- 2.4.4 Except as expressly stated in The Exchange Derivatives Rules and to the extent permitted by Law, neither The Exchange, nor its Affiliates, nor any of their respective Representatives gives any express or implied warranties or representations (including warranties of satisfactory quality and fitness for a particular purpose or use) relating to any systems or services of The Exchange or services, equipment or facilities used to support such systems and services, including the NSE Platform.

#### **Indemnity**

- 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.
- 2.4.6 Without prejudice to Rule 2.4.1 and Rule 2.4.2 of this Rulebook, The Exchange shall not be liable to any Person which is not a Member.

#### **2.5 Confidentiality and Intellectual Property**

- 2.5.1 Any information that is provided to a Clearing Member in order to facilitate a delivery in accordance with the Designated Clearing House Rules, including, but not limited to, the subject matter of the Trade, the identity of the other Clearing Member and the value of the delivery, may only be used by the Clearing Member for the sole purpose of making the delivery as directed by the Designated Clearing House.

2.5.2 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.

## **2.6 Severability**

2.6.1 Each of the provisions of this Exchange Derivatives Rulebook is severable and distinct from the others. It is intended that every Exchange Rule and every part of each Exchange Rule shall be and remain valid and enforceable to the fullest extent permitted by Law. If any Exchange Rule or part of any Exchange Rule is or at any time becomes to any extent invalid, illegal or unenforceable for any reason, it shall to that extent of its invalidity, illegality or unenforceability be deemed not to form part of this Exchange Derivatives Rulebook but the validity, legality and enforceability of the remaining provisions in this Derivatives Rulebook shall not be thereby affected or impaired.

## **2.7 Waiver**

2.7.1 Except as specifically provided in The Exchange Derivatives Rules, no waiver of any of the provisions of The Exchange Derivatives Rules or any part thereof shall be effective unless the same shall be in writing, and then such waiver shall be effective only in the specific instance, for the purpose for which the same is given, and such waiver shall not operate as a waiver of any future application of such Rule or part thereof.

2.7.2 The waiver of any right, and the failure to exercise any right or to insist on the strict performance of any of the provisions of The Exchange Derivatives Rules, shall not operate as a waiver of, or preclude any further or other exercise or enforcement of that or any other right.

2.7.3 Any timelines fixed by The Exchange Derivatives Rules for the doing of any act or acts required by The Exchange Derivatives Rules may be waived or suspended by The Exchange whenever, in its judgment and absolute discretion, such extension, waiver or suspension is necessary or expedient.

## **2.8 Governing law and dispute resolution**

2.8.1 The Exchange Derivatives Rules shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

2.8.2 Subject to Rule 2.8.4 of this Derivatives Rulebook, any dispute arising out of or in connection with The Exchange Derivatives Rules or any Transaction, Back-off Transaction or Trade including any question regarding the validity of the Membership

Agreement shall be referred to and resolved in accordance with The Exchange's Disciplinary Procedure.

- 2.8.3 The commencement of any proceedings pursuant to Rule 2.8.2 of this Derivatives Rulebook shall be without prejudice to and shall not limit in any way the right of The Exchange to instigate any procedure under this Derivatives Rulebook, including without limitation in relation to any Event of Default or any investigation or disciplinary proceedings or procedure or process.
- 2.8.4 The Exchange will not be responsible for compliance or non-compliance by any other person with the requirements under the SEC Rules, including concerning offers made to the public.

## **CHAPTER 3**

### **MEMBERSHIP**

#### **3.1 Types of membership and application**

3.1.1 A Person must, at a minimum, demonstrate to The Exchange that it can satisfy the Membership Criteria set out in Rule 3.2 below.

3.1.2 Members may effect Transactions in one or more of the following capacities:

- a. Dealer
- b. Broker
- c. Broker-Dealer

Provided that where a Member has the necessary regulatory authorisation, it may act in more than one of the above capacities.

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.

3.1.4 A Member must continue to satisfy the Membership Criteria applicable to its category of membership for so long as it remains a Member of that category.

3.1.5 Each Member shall, and shall procure that its Representatives shall act in accordance with The Exchange Derivatives Rules. Different Exchange Derivatives Rules may apply to different categories of Members and the applicable Exchange Derivatives Rules may include a Product Specification that is specific to the type of Transaction or Back-Off Transaction entered into by a particular category of Member.

#### **3.2 Membership Criteria**

3.2.1 To satisfy the Membership Criteria, a person must at all times:

- a. be incorporated as a body corporate in Nigeria;
- b. have all necessary authorisations, licences, permissions, approvals or equivalent from the SEC;
- c. comply with all Laws and the requirements of the SEC;
- d. not be subject to an Insolvency Event or an Event of Default or any circumstances pursuant to which either an Insolvency Event or an Event of Default could be declared;

- e. have capital of at least the amount set out in the Membership Procedure for this purpose;
- f. be party to an executed Membership Agreement and such other agreements as required by The Exchange from time to time, including where applicable the Related Agreements;
- g. be a Clearing Member or ensure that a Clearing Member assumes responsibility for any Transactions and Trades resulting from their activities and the activities of any of their Clients on the Exchange;
- h. have nominated a Representative, who is sufficiently senior and familiar with the provisions of The Exchange Derivative Rules and the Member's activities in relation to The Exchange, to be available to deal with any query or issue raised by the Exchange and be responsible for the Member's actions and the representation of the Member before The Exchange and its Committees;
- i. have sufficient Representatives with adequate knowledge, experience, training and competence, and take all reasonable steps to ensure that the Representatives comply with all applicable obligations arising under The Exchange Derivatives Rules;
- j. not have been, or have any Representative who has been, convicted of any offence involving fraud, theft, false accounting, offences against the administration of public justice, serious tax offences or other dishonesty or an offence relating to companies, insurance, banking, other financial services, consumer credit or consumer protection, money laundering, bribery, market abuse or insider dealing or be, or have any Representative who is, under investigation for committing such an offence;
- k. satisfy The Exchange as to its fitness and propriety, financial, operational, technical and risk management capacity, competence, facilities and organisational arrangements to be able to satisfy its obligations under The Exchange Derivative Rules and demonstrate, to the satisfaction of The Exchange, that its systems and controls ensure that all Representatives who act on behalf of or in the name of the Member in the conduct of business on The Exchange are fit and proper with appropriate qualifications and experience and are trained and properly supervised to perform such functions in connection with the conduct of business on The Exchange;
- l. satisfy The Exchange that it has in place adequate systems, internal; procedures and controls surrounding the submission of Orders to The Exchange, including any controls required by the Exchange or the SEC and systems and controls to ensure that any individuals who submit Orders to the Exchange in its name are fit and proper, suitable, adequately trained and properly supervised to perform such activity;
- m. satisfy The Exchange that it has adequate Trade execution, recording, reporting and clearing and settlement procedures (where applicable) and, if relevant, Order and quote management procedures and systems;

- n. satisfy The Exchange that it has in place adequate written anti-money laundering, bribery and corruption, risk management and disaster recovery and business continuity policies and procedures to ensure that it is able to perform its obligations under the provisions of The Exchange Derivatives Rules and Law;
  - o. be engaged in or demonstrate immediate capacity to engage in activity on the Exchange;
  - p. submit to The Exchange and keep updated The Exchange's Derivatives Authorised Persons Form
  - q. demonstrate that it is in compliance with the provisions of The Exchange Derivatives Rules; and
  - r. satisfy any further requirements which The Exchange may reasonably impose on a Member from time to time.
- 3.2.2 For the avoidance of doubt, a dealing member 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.

### **3.3 Members Clearing Arrangements Rules**

- 3.3.1 A Member must either be a Clearing Member or have made satisfactory arrangements with a Clearing Member in order to guarantee the Clearing of any Trades executed on The Exchange.
- 3.3.2 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.
- 3.3.3 A Clearing Member shall open one or more Accounts at the Designated Clearing House for the Acceptance of Transactions effected by the Member (including for its Clients and for Non-Clearing Members and their Clients). A Member which intends to act as a Market Maker shall open one or more Accounts for the Acceptance of Trades entered into by it in the capacity of Market Maker as specified for such purposes in the Designated Clearing House Rules.
- a. A Member which intends to enter into Trades on its own account shall open an Account for the Acceptance of Transactions entered into by it on such basis specified for such purposes in the Designated Clearing House Rules.

- b. A Member which intends to act for Non Clearing Members and or its Clients shall open one or more Accounts specified for such purposes in the Designated Clearing House Rules.

3.3.4 In accordance with 3.3.1 above a Member shall maintain the necessary Clearing arrangements, either directly or with a Clearing Member acting on its behalf, and in particular is required:

- a. to maintain one or more accounts at a bank approved by the Designated Clearing House to ensure the timely Clearing and Settlement of all Trades;
- b. to complete such documents as may be required by the Designated Clearing House, to facilitate the delivery of Securities or other Underlying on Expiration of Futures Trades and Options Trades in the forms prescribed by the Designated Clearing House;
- c. to satisfy The Exchange that arrangements are in place for the provision of Collateral by the Member as and when required in accordance with The Exchange Derivatives Rules; and
- d. to be bound by the rules and procedures of the Designated Clearing House.

### **3.5 Trading on behalf of Clients**

3.5.1 Each Member may submit Orders to The Exchange on behalf of a Client provided that the Member shall be deemed to submit such Orders as principal, rather than as agent for the Client.

3.5.2 Where a Member submits Orders to The Exchange on behalf of a Client:

- a. it shall provide such further information about such Client and the Orders submitted on its behalf as The Exchange may require and use its best endeavours to procure that each Client provides to The Exchange such information about such Client and the Orders submitted on its behalf as The Exchange may require;
- b. it must satisfy itself that the acts and omissions of its Clients and their Representatives will not prevent it from complying with the provisions of The Exchange Derivatives Rules, it must impose the prohibitions set out in Rule 3.8 of this Derivatives Rulebook on each Client and its Representatives and it must procure that each Client and Representative comply with Chapter 6 of The Exchange Derivatives Rulebook as if the Client were a Member; and

- c. it must procure that each Client cooperates with The Exchange in the event of any action being taken against the Member in the same way as set out in Rule 6.2.2 of this Derivatives Rulebook save that the Client shall not be required to permit access without notice to its business premises.
  - d. It shall ensure that, where Collateral is received in respect of a Trade, it shall segregate such Collateral placed by such Client from its own proprietary assets and establish a separate account for the Client to enable identification and segregation of positions and Collateral belonging to the Client.
- 3.5.3 Without prejudice to Rules 3.10 and 3.11 of this Derivatives Rulebook, if The Exchange has reason to believe or suspect that any Client is conducting trading activities in violation of The Exchange Derivatives Rules or in a manner that otherwise threatens the integrity or liquidity of any Listed Product, The Exchange may request the Member trading on behalf of such Client to submit to the processes set out in Chapter 6 of The Exchange Derivatives Rules for the purpose of such matter, in which case the Disciplinary Procedure of The Exchange will apply to such matter as though the violation were committed by the Member and the Member shall cooperate fully with The Exchange in the investigation including suspending the Client's account if the investigation requires same.

### **3.6 Notification Requirements**

- 3.6.1 Each Member shall notify The Exchange in writing immediately in the event of any of the following:
- a. it ceases to be able to satisfy any of the Membership Criteria and, if applicable, the Clearing Membership criteria issued by The Exchange from time to time, or reasonably believes it may cease to do so;
  - b. any changes are made to the information previously provided to the Exchange, including:
    - i. name and address of the Member;
    - ii. senior executive officer or compliance officer of the Member;
    - iii. scope of trading activity in relation to business conducted on The Exchange's Derivatives Market;
    - iv. access to the NSE Platform; and

- v. scope of Clearing arrangements in relation to a Member's business on The Exchange's Derivatives Market, including Clearing codes.
  - c. the Member is notified that the SEC or any other regulator or authority shall investigate any of its affairs, or the affairs of its parent or group company, which is material in terms of the overall size of its group or take criminal, disciplinary or other formal action against it or the Member has reason to believe that the SEC or regulator or authority is considering the same;
  - d. any circumstances which have, will or may lead to a contravention of any of The Exchange's Derivatives Rules, including system problems with as much detail as available to it (whilst The Exchange shall take into consideration the notification such notification does not however constitute a waiver of the Member's obligations under The Exchange Derivatives Rules or remove the effect or consequence of breaching The Exchange's Derivatives Rules). A Member's system problem includes technical difficulty which prevents a Member from accessing, viewing data from or submitting data to the NSE Platform or Designated Clearing House Clearing system;
  - e. any dispute with any third party relating to a Trade; and
  - f. of anything relating to the Member of which The Exchange would reasonably expect notice.
- 3.6.2 Each Member shall seek prior written approval from The Exchange for any material change in its form or organisation, ownership structure, or business operations, including:
- a. a merger, combination or consolidation between the Member and another person;
  - b. a change in the direct or indirect beneficial ownership of 10% or more of the equity of the Member;
  - c. the sale of a significant part of the Member's business or assets to another Person; and
  - d. a material change in its business operations.
- 3.6.3 Each Member shall furnish to The Exchange such documents in a timely manner with respect to any of the foregoing events as The Exchange may from time to time require.
- 3.6.4 All information provided to The Exchange by or on behalf of the Member shall be accurate, complete and not misleading and shall be provided in a format approved by The Exchange. All information shall be provided to The Exchange in English. Where any

documents to be provided to The Exchange are not in English, a certified translation of the document should be provided along with the original.

### **3.7 Right to audit**

3.7.1 The Exchange shall be entitled to conduct audits on each Member's compliance with the provisions of The Exchange Derivative Rules. Each Member shall for such purposes:

- a. provide such information, books and records as The Exchange may reasonably request; and
- b. co-operate with The Exchange in the ways requested and required.

### **3.8 Prohibitions**

3.8.1 A Member shall not:

- a. breach any Law or requirements of the SEC or any of the provisions of These Exchange Derivatives Rules;
- b. engage in any behaviour which amounts to market abuse, insider dealing, market manipulation, money laundering, bribery or corruption, fraud or any other matter, which is in breach of any similar Law or, which in the reasonable opinion of The Exchange, would be likely to have a material adverse effect on the Member's suitability as a Member;
- c. engage in any other practice which The Exchange reasonably considers to be capable of impairing the integrity of The Exchange;
- d. take any action which in the reasonable opinion of The Exchange is likely to bring The Exchange or any of the Members into disrepute or otherwise damage the reputation of The Exchange;
- e. use any of the facilities provided by The Exchange in contravention of The Exchange Derivatives Rules or other than for the purpose of conducting its business as a Member; or
- f. fail to supervise properly (in the reasonable opinion of The Exchange) its Representatives and Client and their Representatives in their use of The Exchange.

### **3.9 Summary suspension and Restrictions**

3.9.1 The Exchange, where it believes that a Member has engaged in professional misconduct or is not in compliance with applicable rules and as such requirements or restrictions are reasonably necessary to ensure that the Member does so, or where The Exchange deems it necessary to protect the integrity of The Exchange's Derivatives Market or

promote the best interests of The Exchange and/or the market and/or investors, may take immediate action to order:

- a. the suspension of any Member (and/or Client account, to the extent relevant); or direct such Member to cease trading on behalf of affected clients;
- b. the suspension either in part or in full a Member's membership of The Exchange's Derivatives Market and/or a Member's access to The Exchange and/or NSE Platform and/or any of The Exchange's services; and/or
- c. any Member to be suspended from submitting Trade Reports; and/or
- d. impose Position Limits on any Member; and/or
- e. restrictions to be placed on the scope of business/activity conducted on The Exchange by a Member; and/or
- f. the imposition of requirements relating to a Member's level of staffing, training, internal procedures and controls or any other matter relevant to the continuing ability of the Member to meet the Membership Criteria.

3.9.2 The affected Member shall promptly be informed of the action taken pursuant to Rule 3.9.1, it shall also be promptly informed of the reasons, and the effective date, time and duration of the sanctions. A Member may challenge the decision of The Exchange and ask for its challenge to be referred to the appropriate body under The Exchange's Disciplinary Procedure.

3.9.3 A Member suspended pursuant to Rule 3.9.1 of this Derivatives Rulebook may not submit Orders but shall continue to comply with The Exchange Derivatives Rules and take such actions or cease to take such actions as The Exchange deems necessary or appropriate.

### **3.10 Emergency actions**

3.10.1 The Exchange may in its sole discretion determine whether an emergency exists and whether emergency action is warranted. The following events and/or conditions may constitute emergencies:

- a. any actual, attempted or threatened behaviour contrary to these Rules 3.10.1 (b) – (f);
- b. any action taken by any government body or any regulatory authority or any other exchange or the Designated Clearing House or any other clearing house which may have a direct impact on trading on The Exchange;
- c. the occurrence of an actual or threatened Insolvency Event in respect of a Member or the imposition of any injunction or other restraint by the SEC or other regulators on a Member which may affect the ability of that Member to perform any obligations it may have under any Transactions, Trades or Back-Off

Transactions;

- d. any circumstance in which it appears that a Member or any other person has failed to perform any obligations it may have under any Transactions, Trades or Back-Off Transactions or the Member or such person is in such financial or operational condition or is conducting business in such a manner that the Member or such person cannot be permitted to continue in business without jeopardizing the safety of Members or The Exchange;
- e. Force majeure, which shall mean any circumstances (including but not limited to a strike, lockout, national emergency, governmental action, or act of God) which is beyond the control of the Counterparties to Trades, and which prevents the Counterparties from making or taking delivery or effecting payment when and as provided for in The Exchange Derivatives Rules (each of which is a *Force Majeure* Event);
- f. any other circumstance which may have a severe or adverse effect on the functioning of The Exchange or the Clearing Services provided by the Designated Clearing House, or which affect the quality of the market in any Listed Product.

3.10.2 In the event that The Exchange determines pursuant to Rule 3.10.1 above that an emergency exists, The Exchange may take any of the following actions or any other action that may be appropriate to respond to the emergency:

- a. terminate trading;
- b. limit or deny access to The Exchange or the NSE Platform;
- c. limit trading to liquidation of Transactions, Trades or Back-Off Transactions only;
- d. impose or modify Position Limits and/or order liquidation of all or a portion of a Member's Account;
- e. suspend or restrict or limit trading in one or more Listed Products;
- f. suspend or restrict the reporting of one or more Trades;
- g. order liquidation of positions as to which the Holder is unable or unwilling to make or take delivery;
- h. confine trading to a specific price range;
- i. modify price limits;
- j. modify the trading sessions;
- k. modify conditions of delivery;
- l. establish the settlement Price and/or the final settlement Price of any Transactions, Trades or Back-Off Transactions;
- m. amend any Product Specifications;
- n. request the Designated Clearing House to take any action in relation to its Clearing Services as is required in the circumstances;
- o. amend the calendar date on which the Settlement Day are to take effect where the emergency includes but is not limited to where it becomes apparent that the

published Settlement Day do not fall on a Business Day. The Exchange shall endeavour to give all reasonable notice in good time ahead of any such amendment, but in any event shall communicate such amendments to the market via Notice. Such amendment of the calendar date shall take precedence over: any provisions contained in the terms of the Listed Products that indicate on which calendar date the Settlement Day should fall; or any publication, Notice or communication previously given specifying on which calendar date the Settlement Day will fall; or

p. order any other action to address or relieve the emergency.

3.10.3 The Exchange shall notify the SEC within 48 (Forty-Eight) hours of any actions taken pursuant to this Rule 3.10.

3.10.4 The Exchange shall notify Members of any actions taken pursuant to this Rule 3.10 as soon as possible.

### **3.11 Resignation and Termination of Membership**

3.11.1 A Member shall give notice of its intention to resign its membership of The Exchange by providing to The Exchange a notice in writing. The resignation will not be effective until ninety (90) Business Days from the date of the notice. A copy of the notice shall forthwith be posted on the notice board in The Exchange offices or any other public medium that The Exchange may determine from time to time. The Exchange shall note any outstanding debts, obligations and commitments of the resigning Member and of any outstanding dealings and Transaction in which The Exchange may be concerned.

3.11.2 The Exchange may postpone the effective date of resignation and may impose other measures that it considers necessary for the protection of investors who may be Clients or the Counterparty of the Member. The Member shall supply The Exchange such information concerning the circumstances of the resignation as shall, in the opinion of The Exchange, be necessary for it to determine whether to exercise its powers under this Rule 3.11.

3.11.3 The Exchange may, in its absolute discretion, refuse to accept a resignation given by a Member if The Exchange considers that any matter affecting the Member should be investigated or concluded.

3.11.4 For the avoidance of doubt, if a Clearing Member ceases to be a member of the Designated Clearing House in accordance with the Designated Clearing House Rules, such Member will cease to be recognized as a Clearing Member under The Exchange Derivatives Rules. In such circumstances, The Exchange shall deem the Member to be a Non-Clearing Member provided that such a Member continues to meet the

Membership Criteria in Rule 3.2 of this Derivatives Rulebook. If the Membership Criteria in Rule 3.2 of this Derivatives Rulebook are not met when the Member ceases to be a member of the Designated Clearing House, The Exchange shall, in its sole discretion, terminate the Member's membership of The Exchange with immediate effect.

- 3.11.5 Subject to The Exchange's Disciplinary Procedure, The Exchange may terminate the membership of any Member by providing the Member with not less than thirty (30) Business Days' notice in writing.
- 3.11.6 Following resignation of a Member or termination of a Member's membership, the former Member shall:
- a. remain subject to The Exchange's jurisdiction as set out in Chapter 6 until any actions arising as a result of a Declaration of Default having been issued to the Member have been completed;
  - b. remain subject to The Exchange's jurisdiction as set out in Chapter 8 with respect to matters that occurred prior to the resignation or termination; and
  - c. promptly discharge any of its remaining obligations under The Exchange's Derivatives Rules and take such other actions as The Exchange deems necessary or appropriate for this purpose.

## **CHAPTER 4**

### **FORMATION OF TRANSACTIONS AND TRADES**

#### **4.1 Formation of Transactions**

- 4.1.1 When one Order is matched with another Order on the NSE Platform, a Transaction is created between the Member which submitted one of the Orders and the Member which submitted the other Order.
- 4.1.2 Each Transaction concluded pursuant to Rule 4.1.1 of this Derivatives Rulebook 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 in line with the Designated Clearing House Rules.
- 4.1.3 The novation to the Designated Clearing House is to the effect that:
- a. the Designated Clearing House shall assume the position of seller to the buyer and the position of buyer to the seller,;
  - b. the Designated Clearing House shall have all the rights and be subject to all the liabilities of each Clearing Member which was, or was deemed to be, party to the Transaction; and
  - c. each Clearing Member which has, or is deemed to have, any rights or obligations under the Transaction shall be released and discharged from all such rights and liabilities as against Counterparties to the Transaction but not the Designated Clearing House.
- 4.1.4 If a Transaction relates to a Product Specification which is not capable of being Accepted for Clearing by the Designated Clearing House it shall not be novated. If the Transaction is not novated, it shall be unwound by the Clearing Members concerned.
- 4.1.5 Upon Acceptance of a Trade or Transaction effected by a Clearing Member for a NonClearing Member, a Back-Off Transaction shall be deemed to be formed between the Clearing Member and the Non-Clearing Member.
- 4.1.6 The terms of the Back-Off Transaction shall be identical to those of the original Trade or Transaction save that the Clearing Member shall assume the obligations of the

Designated Clearing House and the Non-Clearing Member shall assume the obligations of the Clearing Member.

4.1.7 The provisions of this Derivatives Rulebook shall apply to Back-Off Transactions.

## **4.2 Transactions**

4.2.1 Transactions may be entered into the NSE Platform by Non-Clearing Members and Clearing Members.

4.2.2 Each Clearing Member shall be a party to and liable as principal in respect of each Transaction it enters into regardless of whether it is acting on its own behalf or on behalf of a Non-Clearing Member or a Client.

4.2.3 Each Clearing Member shall be a party to and liable as principal in respect of each Back-Off Transaction it enters into.

4.2.4 Each Non-Clearing Member shall be a party to and liable as principal in respect of each Back-Off Transaction it enters into regardless of whether it is acting on its own behalf or on behalf of a Client.

4.2.5 The Exchange has no contractual relationship with any Client under The Exchange Derivative Rules and Clients do not have any of the rights or benefits of a Member.

4.2.6 The validity of a Transaction is determined pursuant to The Exchange Derivative Rules. Each Transaction is subject to The Exchange Derivative Rules.

## **4.3 Cleared Trades**

4.3.1 A Cleared Trade is formed upon the novation of the Transaction by the Designated Clearing House in accordance with the Designated Clearing House Rules.

4.3.2 The validity of a Cleared Trade is determined pursuant to the provisions of The Exchange Derivatives Rules and the Designated Clearing House Rules. Each Cleared Trade is subject to The Exchange Derivatives Rules and the Designated Clearing House Rules as applicable.

## **4.4 Transactions on behalf of Clients**

4.4.1 Where a Clearing Member enters into a Transaction on behalf of a Client or a Non-Clearing Member enters into a Back-Off Transaction on behalf of a Client,

- a. if the Member is buying from the Client, the Client will be selling under the Transaction (if it is a Clearing Member) or the Back-Off Transaction (if it is a Non-Clearing Member); and
  - b. if the Member is selling to the Client, the Client will be buying under the Transaction (if it is a Clearing Member) or the Back-Off Transaction (if it is a Non-Clearing Member).
- 4.4.2 For the avoidance of doubt, Trades between a Clearing Member and a Client, or between a Non-Clearing Member and a Client are not Cleared.
- 4.4.3 A Member must not represent to a Client that it has entered into The Exchange Derivatives Market (in whatever terms) for a Client unless a Transaction or Back-off Transaction is entered into by that Member in respect of the relevant Trade with the Client.

## **CHAPTER 5**

### **TRADING RULES**

#### **5.1 General**

- 5.1.1 All Transactions on The Exchange Derivatives Market shall be effected automatically on The Exchange's Order Book or through The Exchange Derivatives Trade Reporting system.
- 5.1.2 Standardised series Products and Bilaterally Negotiated Trade shall also be traded through the NSE Platform, via the submission of Orders through the Order Book.
- 5.1.3 Orders submitted onto the Order Book or the NSE Platform shall be:
- a. firm and unequivocal, and
  - b. the responsibility of the Member who submitted it.
- 5.1.4 A Member shall be liable for all obligations and liabilities arising from the submission of electronic messages and Orders to the NSE 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 NSE Platform.
- 5.1.5 When using the NSE Platform to submit Orders, a Member shall comply with the procedural, operational and technical requirements of The Exchange's systems and networks as specified by The Exchange from time to time.
- 5.1.6 A Member may contact The Exchange to cancel an Order that is yet to be accepted in the Clearing system pursuant to the Designated Clearing House Rules. Such requests must be from an Authorised Person.

#### **5.2 Erroneous Orders**

- 5.2.1 An Order shall be considered to be erroneous where:
- a. any of the Counterparties had no intention to Trade in the Listed Product and the Order was entered mistakenly; or,
  - b. the terms of the Order entered did not represent the intended Trade

5.2.2 In determining whether an Order is erroneous, The Exchange will ask the Member for details of the background to the Order. The Exchange will also consider whether the following additional factors are present in deciding whether to query an Order such as:

- a. an aggressively priced Limit Order that executes against a significant number of Orders on one side of the Order Book, which could take place, for example, if price and size have been entered in the wrong fields;
- b. an Order that is divided into sizes either not intended by the Member;
- c. an Order with sizes that are so small or so large as to be inappropriate;
- d. current market conditions, including volatility and liquidity; and
- e. the release of economic data and other relevant news affecting the relevant Underlying of the Order
- f. error as to size of bid or offer: The Transaction resulted from a bid or offer in an amount that was disproportionately larger than the prevailing market in such Listed Product.
- g. error as to bid or offer price: The Transaction was consummated at a price that is significantly different from the prevailing market in the subject Listed Product at the time the initiating bid or offer was made, provided that there is no extrinsic information that would justify such Transaction price.
- h. error as to account number: where the same account number is entered for the buy and sell sides when doing a Cross Trade; or a Trade results in an inadvertent Cross Trade between two accounts of the same Member such that there is no change in beneficial ownership of the Listed Product Traded.

5.2.3 In order to prevent the entry of erroneous Orders to the Order Book, Members shall ensure that their systems are designed to identify and prevent the entry of such Orders. Systems that use controls and system alerts, which may be based on some or all of the following are considered adequate:

- a. the current spread in the market;
- b. trader, Product-specific or firm-wide size and price limits;
- c. the likely movement in the price of the Listed Product if the Order or quote is submitted; and
- d. a minimum and maximum notional value per Order or quote.

- 5.2.4 Members may develop their own bespoke controls and system alerts which contain all or other controls and system alerts enumerated in Rule 5.2.3 above to prevent the entry of Orders and quotes which, because of their price, size and/or nature, could impact on the smooth running of the market.
- 5.2.5 In deciding what action to take against a Member for the submission of any apparently erroneous Order, The Exchange will consider both the potential and the actual market impact of such Orders. It will also have regard to the relative frequency with which the Member submits such Orders or quotes.
- 5.2.6 A Member who believes that it has participated in an erroneous Order must notify The Exchange within thirty (30) minutes of execution of the Transaction(s) and request that the Transaction be cancelled.
- 5.2.7 The Exchange may also initiate a review of one or more Trades believed to result from an obvious error, notwithstanding that the Member did not make an application for review of the Order nor was any form of notification received within the time period set forth above. The Exchange shall initiate such review only if the nature of the obvious error could not have been known within the time period set forth above or if extraordinary circumstances outside the control of the Member prevented a timely application or review within such time period.
- 5.2.8 Reviews initiated by The Exchange shall be initiated within thirty (30) minutes of the suspected erroneous Order(s) or in the case of errors that could not be detected prior to closure of the market, within a reasonable time from the close of the market.
- 5.2.9 Where a review is initiated for one or more Trades under this Rule, The Exchange shall publish a Notice informing the market that a Trade is under review, and may invite affected Members in the Trade under review to timely submit additional information that would be relevant to The Exchange's review. The Notice to the market shall specify the time by which affected Members must respond.
- 5.2.10 The Exchange reserves the right to delete any Order submitted on to the Order Book where The Exchange believes it is necessary in order to preserve market orderliness.

### **5.3 Re-Acceptance of Trades**

- 5.3.1 A request for Re-Acceptance of a Trade in a Listed Product shall take effect from the time at which The Exchange confirms to the Designated Clearing House that such application has been Accepted and the Designated Clearing House amends the particulars recorded in its Clearing system in accordance with such request for Re-

Acceptance and registers the Trades in the appropriate Accounts in accordance with its terms.

- 5.3.2 An incorrectly Accepted Trade may be cancelled or corrected provided that a valid Protest is made to The Exchange in accordance with the appropriate cancellation rules. In the absence of any such Protest, an incorrectly Accepted Trade will remain in full force and effect and will bind the affected Counterparties to such Trade.
- 5.3.3 Following Acceptance of a Trade in the Clearing system pursuant to the Designated Clearing House Rules, it is deemed to be discharged by novation to the Designated Clearing House and the Counterparties of the Trade have the rights and obligations to such Trade for the duration of the Trade.

#### **5.4 Orders**

- 5.4.1 On placing an Order, a Member offers to buy or to sell the Listed Products in the Series in accordance with the terms specified in the Order. An Order is construed as an offer and remains open for Acceptance unless and until the Order is varied or cancelled by the Member or The Exchange pursuant to Rule 5.1.10 above.
- 5.4.2 The following information shall be provided by a Member when placing, cancelling or varying an Order by way of the NSE Platform:
- a. the Series, Settlement Style, and the Listed Product in question;
  - b. the Expiration Month;
  - c. whether its Order is to buy or to sell;
  - d. in the case of an Options Trade, whether it is a call or a put;
  - e. the price for the Order;
  - f. the Order's volume;
  - g. whether it is a Limit Order, Market Order or a Combination Order;
  - h. the Account to which the Trade, if executed, is to be allocated;
  - i. if appropriate, the identification code of the Client for whom the Order has been placed.
- 5.4.3 The value of every Order placed on the Order Book must not exceed the maximum permitted size for the Product in question. Members should note that any Order placed on the Order Book which exceeds the applicable maximum permitted size shall be rejected. The Exchange shall inform a Member which contravenes this Rule. Price and quantity restrictions are detailed in The Exchange Derivatives Market Trading Services Description on The Exchange's website.
- 5.4.4 The relevant Product Specification for every Product shall specify the Tick size applicable for trading on the Order Book.

## **5.5 Market Maker Rules**

- 5.5.1 The Exchange may from time to time, in the interest of promoting market liquidity, operate one or more liquidity schemes. The Exchange shall, in relation to each liquidity scheme, determine the terms of the liquidity scheme including, but not limited to, the categories of Members who shall be eligible to participate in a liquidity scheme, the maximum number of participants in a liquidity scheme, the benefits to the participating Members of a liquidity scheme and the Listed Products to which the liquidity scheme shall relate. Details of any liquidity schemes offered by The Exchange from time to time will be published on The Exchange's Website.
- 5.5.2 All Market Makers are required to maintain an electronic connection to The Exchange and to provide quotes in the Listed Products that are available and in which they have agreed to act as such by such means.
- 5.5.3 A Market Maker shall enter into a Market Maker Agreement with The Exchange specifying the Listed Products in which it agrees to act as such and the capacity in which it will act in respect of each Listed Product.
- 5.5.4 All details covering liquidity provision are outlined in The Exchange Derivatives Rules, the liquidity scheme and the fees payable by the Market Maker shall be published on The Exchange's website.
- 5.5.5 A Market Maker may act in such capacity as is specified in the liquidity scheme applicable to the Listed Product in question.
- 5.5.6 A Market Maker which performs its obligations as such to the satisfaction of The Exchange shall pay fees in relation to Trades effected by it in its Market Maker capacity as specified more particularly in the Market Maker Obligations Document. Where a Market Maker does not meet its obligations as specified in the Market Maker Obligations Document it shall pay the standard Member fees.

## **5.6 Block Trades**

- 5.6.1 The Exchange shall, in the Transaction Procedure and Product Specifications, designate the Listed Products in which Block Trades shall be permitted and determine the minimum quantity thresholds for such Transactions.
- 5.6.2 A Block Trade must be for a quantity that is at or in excess of the applicable minimum threshold. Orders may not be aggregated in order to achieve the minimum Transaction size.

- 5.6.3 A Member shall make clear to any potential Counterparties that the price being quoted is a Block Trade price. A Member must not disclose the identity of the party to a Block Trade order to potential Counterparties unless the Member has previously received that party's permission to do so.
- 5.6.4 The price at which a Block Trade is executed must be fair and reasonable in light of:
- the size of the Block Trade;
  - the prices and sizes of other Transactions in the same Listed Product at the relevant time;
  - the prices and sizes of Transactions in other relevant markets including the underlying cash market or related derivatives markets at the relevant time; and
  - the circumstances of the markets or the parties to the Block Trade.
- 5.6.5 Block Trades shall not set off conditional Orders or otherwise affect Orders ordinarily submitted to the NSE Platform.
- 5.6.6 Both the seller and buyer or a third party authorised by either of them to act on its behalf (i.e. Broker, the buyer, Clearing Member) must ensure that each Block Trade is reported within the time frame set out in the Transaction Procedure. The report must include the Listed Product, Trade month, price, quantity of the Transaction, the respective Clearing Members, the time of execution, and, for Options, strike price, Put or Call and Trade month. The Exchange shall promptly publish such information.
- 5.6.7 Block Trades must be submitted to the Designated Clearing House for Clearing as set out in the Transaction Procedure.
- 5.6.8 Members involved in the execution of Block Trades must maintain a record of the Transaction in accordance with Rule 5.6 of this Derivatives Rulebook. The time of execution of the Block Trade must also be recorded.

## **Cancellation of Trades**

### **5.7 General**

- 5.7.1 The Exchange reserves the right to forcibly cancel any Trades without the permission of either Counterparty. Circumstances under which this can occur may include, but are not limited to:
- an error (technical or operational) on the part of The Exchange or its systems;

- b. material breach of any Law, any of the provisions of The Exchange Derivatives Rules or any rule of an Affiliate of The Exchange (such as the Designated Clearing House);
  - c. The Exchange judges that cancellation of the Trade would be in the best interest of the market;
  - d. for Dividend derivatives, where a Trade occurs on the basis of materially erroneous information.
- 5.7.2 The Exchange will only accept cancellation requests from an Authorised Person at the Member as documented by the Member in the Authorised Persons Form.
- 5.7.3 A Member that is perceived by The Exchange to be cancelling Trades with higher than average regularity will be warned once by The Exchange. If the activity continues the Member may be suspended from the market.
- 5.7.4 No Trades in any Listed Product will be considered for cancellation for being Incorrect Trades if the request to cancel is received by The Exchange after the close of business on the Business Day following the day of the transaction.
- 5.7.5 On receiving a request from a Member to cancel a Trade, The Exchange will contact the other Counterparty and request that the Trades be cancelled. Should the Counterparty not agree, the Trades will not be cancelled
- 5.7.6 Where both Counterparties wish to make adjustments to a Bilaterally Negotiated Trades that has already been Accepted, the rules for Re-Acceptance apply.

## **5.8 Position Limit Rules**

- 5.8.1 The Exchange may set Position Limits prescribing the maximum value of Cleared Trades in a Standard Series which may be held by a Member or a Client at any time. Such Position Limits will be set by The Exchange in the interests of maintaining a proper market in the Listed Product in question.
- 5.8.2 Position Limits may also be set by The Exchange following discussions with the Designated Clearing House where The Exchange and the Designated Clearing House are satisfied that such action is necessary in order to manage the risk represented by the Member in question.

- 5.8.3 The Exchange will notify Members of the imposition of Position Limits in relation to any Listed Product or of any variation in existing Position Limits.
- 5.8.4 A Member shall not enter into any Trade in a Listed Product if such Trade would result in Position Limits applicable to the Listed Product in question being breached by the Member or the Client for whom the Member is acting in relation to the Trade.
- 5.8.5 A Member shall take such action as The Exchange may direct in order to rectify any breach of a Position Limit by the Member. Where the Member fails to act in accordance with instructions given by The Exchange in accordance with the provisions of this Derivatives Rulebook, The Exchange may take such action as it considers necessary in the circumstances including, without limitation, excluding the Member from participation in trading at The Exchange's Derivatives Market and effecting in the name of and at the expense of the Member such Trades as The Exchange at its sole discretion considers are necessary to cure the breach of the relevant Position Limit.
- 5.8.6 Breach of a Position Limit shall be a disciplinary offence under The Exchange Derivatives Rules. A Member which has breached a Position Limit imposed by The Exchange will be subject to disciplinary action in accordance with the Disciplinary Procedure of The Exchange. The Exchange may investigate positions registered in Accounts held by a Member to establish whether the Member has registered positions in more than one Account in an attempt to circumvent Position Limits applicable to such Member.

## **5.9 Trade Reporting Rules**

- 5.9.1 The provisions of this Rule 5.9 of this Derivatives Rulebook provide for the Trade Reporting and Acceptance of Bilaterally Negotiated Trades to The Exchange in Standard Series and Tailor-made Futures Trades or Options Trades.
- 5.9.2 Trades in Standard Series and Tailor-made Trades are to be reported to The Exchange through Trade Report templates provided by The Exchange from time to time.
- 5.9.3 Trades reported to The Exchange should be reported in a timely manner but, in any event, no later than one hour after the time of the Trades.
- 5.9.4 Standard Series Trades are subject to The Exchange's automated controls. Tailor-made Series Trades are subject to a reasonable theoretical fair value price validation. Following validation by The Exchange of Tailor-made Series Trades, the relevant particulars are communicated to the Designated Clearing House which then determines that the Trades are acceptable on the terms specified within the Trades report with the Member or Members in question.

- 5.9.5 All Trades Reports can only be accepted on valid Business Days for the specific market as determined by the Exchange.
- 5.9.6 Where The Exchange informs the Designated Clearing House that it is in receipt of a Trade Report before the relevant deadline and agrees to accept the Trade pursuant to such Trade Report, the Trade in question shall be Accepted by the Designated Clearing House on that day. Where a report relating to the acceptance by The Exchange of the Trade Report is received by the Designated Clearing House after such deadline, the Trade in question shall be considered for Acceptance by the Designated Clearing House on the next Business Day.
- 5.9.7 All such Accepted Trades will be Cleared by the Designated Clearing House as the Central Counterparty in accordance with and subject to the Designated Clearing House Rules.
- 5.9.8 If for any reason the registered Expiration Day for a Tailor-made Trade proves not to be a Business Day for the relevant Trade, The Exchange shall have the power to modify the Expiration Day by bringing it forward to the Business Day for the Trade in question immediately preceding the reported date.
- 5.9.9 The Member should provide details of the Trade and must meet the criteria for Acceptance. The required details will include:
- a. the type and class of a Standard or Tailor-made Trade;
  - b. the term of any Tailor made Trade;
  - c. the Strike Price;
  - d. the Settlement Style;
  - e. whether it wishes to buy or to sell;
  - f. the name of the Counterparty; and
  - g. Account type.
- 5.9.10 The Acceptance of such Trade will be at the discretion of The Exchange and the Designated Clearing House. The Trade will not, however, be Accepted unless a corresponding Trade report is confirmed by each Counterparty to The Exchange and that such Trade is Accepted.
- 5.9.11 A Trade Report of a Bilaterally Negotiated Trade in accordance with this Derivatives Rulebook must be submitted to The Exchange by electronic communication using predefined Trade Report templates. The Exchange will inform each Member submitting such request promptly as to whether it has been Accepted or not.

## **5.10 Protests**

- 5.10.1 Members have access to Statements specifying the Trades which have been Accepted for Clearing in their Accounts at the Designated Clearing House.
- 5.10.2 The Member shall satisfy itself that the information contained in the Statement is complete and correct in all respects and that the Statement records accurately the terms of the Trades effected by the Member at The Exchange on the day in question.
- 5.10.3 A Member which uses the services of a Clearing Member shall confirm with such Clearing Member that the particulars of Trades shown in the Statements as having been entered in to by the Member are complete and correct in all respects.
- 5.10.4 In accordance with the Designated Clearing House Rules, the Member or Clearing Member as the case may be, shall be bound by the terms of a Cleared Trade recorded on a Statement. To be valid, a Protest must be submitted to The Exchange by the Member no later than 08:00 hours West Africa Time on the Business Day following the day of the Transaction. Such Protest shall be in writing and shall provide details of the alleged error.
- 5.10.5 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 no later than 60 minutes prior to the closing of the Clearing system on the Expiration Day.
- 5.10.6 The Exchange reserves the right to make exceptions to time limits in this Derivatives Rulebook if strict compliance is operationally impossible, provided that The Exchange shall communicate such exceptions to Member or Members concerned.
- 5.10.7 A Member, who wishes to submit a Protest in respect of an incorrectly executed or non-executed Exercise or Settlement, must submit a request to The Exchange as soon as the error is discovered, however, no later than after normal opening of the next Business Day after the Exercise or Settlement was carried out. .
- 5.10.8 The Exchange will immediately inform the Members concerned how the amendment will be effected.
- 5.10.9 In its own authority or following a request by a Member, The Exchange may carry out the following measures, as a result of an incorrectly executed or non-executed Exercise or cash Settlement, which a Member has processed or failed to process:
- 5.10.9.1 If, in the Exchange's opinion, a Member's request for Exercise or Settlement

has been incorrectly executed, The Exchange may contact Members concerned on its own initiative, even if no Protest has been made.

5.10.9.2 The Exchange will cancel or amend the Exercise and any Settlements in question if the Members concerned consent to such a measure.

5.10.10 On receipt of a valid Protest, The Exchange shall investigate the matter. The Exchange shall immediately inform the Member submitting the Protest of its decision. Where the Member so requests, The Exchange shall confirm its decision and the reasons therefore in writing as soon as possible after the decision is given. The Exchange shall inform the Designated Clearing House of its decision concerning the Protest and shall arrange for the terms of any Cleared Trades affected by the Protest to be adjusted as required in accordance with its decision. The adjustment of the terms of any Cleared Trades pursuant to a Protest shall be effected by the Designated Clearing House in accordance with the Designated Clearing House Rules.

## **5.11 Re-Acceptance**

5.11.1 A Request for Re-Acceptance for the transfer of all or certain specified Trades/Transactions Cleared in an Account at the Designated Clearing House to the Account of a Member at the Designated Clearing House may be submitted to The Exchange in accordance with this Rule.

5.11.2 A Request for Re-Acceptance may be submitted to The Exchange on the grounds that:

- a. the Member has decided to use the services of a Clearing Member and seeks the Re-Acceptance of Trades/Transactions registered in its Account to the Account of the Clearing Member;
- b. the Member has decided to terminate its existing arrangements with a Clearing Member and seeks the Re- Acceptance of Trades/Transactions registered in the Account of such Clearing Member pursuant to the execution of Trades/Transactions by such Member to the Account of the Member or the Account of another Clearing Member whose services the Member has decided to use;
- c. the Cleared Trades or Transactions to which the request relates were effected on behalf of a Client who has requested that its positions be transferred to another Clearing Member;
- d. the Cleared Trades or Transactions to which the request relates were effected on behalf of a Member as a Client of another Member, and the Member has

requested that the positions in question be transferred to its Proprietary Account;

- e. the Re-Acceptance is requested following the transfer of the business of the transferor Member to the transferee Member or other similar event; or
- f. that the Acceptance of the Trade/Transactions in the Account in question was the result of an error;
- g. the Re-Acceptance is requested by a Member for a Trade/Transaction that has failed to be Accepted by the Designated Clearing House;
- h. The Re-Acceptance is requested by a Member for an incorrectly Cleared Trade or Transaction.

5.11.3 Requests for Re-Acceptance shall be submitted to The Exchange by submitting a duly completed request in writing. Any request which seeks the Re- Acceptance of a Trade to or from a Client Account shall not be considered unless the Member requesting Re-Acceptance provides satisfactory confirmation that the Clients affected thereby have consented to the Re- Acceptance.

5.11.4 Requests for Re-Acceptance of a Cleared Trade or Transaction to or from the Account of a Clearing Member shall be submitted by a completed request in writing by the party affected by such request.

5.11.5 A Request for Re-Acceptance shall be submitted within the Business Hours, as set out in the Product Specifications, on the Business Day following the day in question when the position or Trade was cleared with the Designated Clearing House. The request shall contains the following details:

- a. the Trades/Transactions to be registered;
- b. the Account of the transferor; and
- c. the Account of the transferee.

5.11.6 A Request for Re-Acceptance can be accepted prior to the specific Listed Product opening for trading provided that the requests must be submitted within Business Hours.

5.11.7 All Requests for Re- Acceptance will be considered at the discretion of The Exchange and the Designated Clearing House and shall, if accepted by the Designated Clearing

House, result in the Re-Acceptance of the Trade/Transaction in question being affected at the time specified by the Designated Clearing House.

5.11.8 The Exchange will inform the Member which submitted the Request for Re- Acceptance of the decision with regard to the request within 48 (Forty-Eight) hours following receipt of the Request.

5.11.9 The decision of The Exchange and the Designated Clearing House in this respect shall be final and binding.

5.11.10 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 Designated Clearing House. Standard fees shall apply to Re-Acceptance of Trades/ Transactions.

## **5.12 Daily Cash Settlement Price**

5.12.1 Futures Trades are subject to Daily Cash Settlement.

5.12.2 Daily Cash Settlement for a Listed Product only occurs on Business Days for that Listed Product as detailed in the Exchange's Trading Calendars available on the Exchange Website.

5.12.3 Where both the Opening Transaction and the Closing Transaction are Accepted on the same day, cash Settlement between the Designated Clearing House and the Member (in its capacity as a Clearing Member) or the Clearing Member acting as a principal for the Member (where the Member is Non Clearing Member) shall be effected by reference to the difference between the Future Price for the two transactions.

5.12.4 The first Daily Cash Settlement occurs on the first Business Day following the Acceptance of the Futures Trade or soon thereafter. Thereafter, Daily Cash Settlement shall be effected on each Business Day until the Expiration Day in accordance with the provisions of this Derivatives Rulebook.

5.12.5 During the term of a Futures Trade, the Daily Settlement Price shall normally be determined in accordance with the process provided for in the relevant Product Specification.

5.12.6 The first Daily Settlement Amount for a Futures Trade shall be determined by reference to the difference between the Future Price for the Futures Trade in question and the Daily Settlement Price for the Futures Trade on that day of the Transaction.

- 5.12.7 The Daily Settlement Amount for a Futures Trade (other than the first Daily Settlement Amount) shall be determined by reference to the difference between the Daily Settlement Price for the Futures Trade on the Business Day in question and the Daily Settlement Price for the immediately preceding Business Day for such Futures Trade.
- 5.12.8 The Daily Settlement Amount shall be payable on the first Business Day following the Day in question in accordance with the instructions of the Designated Clearing House.

## **CHAPTER 6**

### **DEFAULT**

#### **6.1 Application of The Exchange Default Rules**

- 6.1.1 Subject to the provisions of Chapter 5 of this Exchange Derivatives Rulebook (*Trading*) and unless otherwise specified (including in relation to the said Chapter 5), the provisions of this Rule 6 (*Default*) shall take precedence over any other provision of this Exchange Derivatives Rulebook.
- 6.1.2 Trades entered into by the Defaulting Member will be dealt with under The Exchange Default Rules, save that, where a Defaulting Member in its capacity as a Clearing Member is declared to be in default by the Designated Clearing House, all Cleared Trades entered into by that Defaulting Member which are affected by the default will be dealt with under the Designated Clearing House Default Rules. Accordingly, the following rules shall apply in the Event of Default
- a. In the event that the Defaulting Member/Clearing Member defaults in respect of a Trade, this shall be dealt with under the Designated Clearing House Default Rules (or such other procedure of the Designated Clearing House Rules which set out the process to be followed in the Event of Default by the Defaulting Member/Clearing Member).
  - b. In all cases, in the event that the Designated Clearing House Default Rules are applicable, the Designated Clearing House Default Rules shall take precedence over the Exchange Default Rules.
- 6.1.3 The Exchange may take the actions set out in the remainder of this Chapter 6 in respect of a Member in the event of any of the following circumstances (each an Event of Default):
- a. the Member fails to discharge any obligation in respect of a Trade/Transaction, whether under the Membership Agreement, The Exchange Derivatives Rules, any Trade/Transaction or otherwise;
  - b. the Member notifies The Exchange that it is, or is likely to be, unable to discharge any obligation in respect of a Trade/Transaction, whether under the Membership Agreement, The Exchange Derivatives Rules or otherwise; or

- c. The Exchange believes that a Member is, or is likely to be, unable to discharge any obligation in respect of a Trade/Transaction, whether under the Membership Agreement, The Exchange Derivatives Rules or otherwise.
- 6.1.4 Without prejudice to the generality of Exchange Rule 6.1.3, The Exchange may take into account any or all of the following events in determining whether an Event of Default has occurred:
- a. the Member or any of its Affiliates is subject to an Insolvency Event; or
  - b. The Exchange reasonably considers that the financial condition of the Member or any of its Affiliates is such that to allow the Member to continue its operation as such may introduce an unacceptable level of risk to The Exchange or its Members.
- 6.1.5 The Exchange has absolute discretion to determine whether an Event of Default exists and, if it does, whether to take the actions set out in the remainder of the Exchange Default Rules in the circumstances.
- 6.1.6 The Exchange has absolute discretion to determine whether a Transaction, Trade or Back-Off Transaction is a Trade for the purposes of exercising The Exchange's powers under The Exchange Default Rules.
- 6.1.7 Each Member shall notify The Exchange in writing immediately of the occurrence of any event or circumstance set out in Rules 6.1.3 or 6.1.4 of this Derivatives Rulebook in relation to the Member.

## **6.2 Actions on a Declaration of Default**

- 6.2.1 If, being satisfied that an Event of Default has occurred, and The Exchange decides to take the actions set out in this Chapter 6 or The Exchange is required by the SEC or any other regulatory authority under the Law, The Exchange shall, within 48 (forty eight) hours:
- a. notify such decision in writing to the Defaulting Member (a Declaration of Default);
  - b. provide a copy of the Declaration of Default to the SEC; and
  - c. publish a Notice of the Declaration of Default on The Exchange's Website.
- 6.2.2 A Declaration of Default will be given by The Exchange by:

- a. email to the email address provided by the Defaulting Member for services of notices under the Membership Agreement or the email address of any member of the board of directors or any other Person specified by the SEC and the Declaration of Default will be deemed to be duly issued upon forwarding the notice to such email address; or
- b. delivery to the physical address provided by the Defaulting Member for services of notices under the Membership Agreement or the physical address of any member of the board of directors or any other Person specified by the SEC and the Declaration of Default will be deemed to be duly issued upon delivery of the notice to such physical address; or
- c. fax to the fax number provided by the Defaulting Member for service of notices under the Membership Agreement and the Declaration of Default will be deemed to be issued on a confirmed completion of the transmission if given by fax; or
- d. publication of a Notice on The Exchange's Website and the Declaration of Default will be deemed to be issued upon the publication.

Notwithstanding the foregoing, The Exchange may give confirmation of a Declaration of Default to the Defaulting Member by personal delivery or recorded or special delivery post in accordance with the Membership Agreement.

- 6.2.3 Upon The Exchange issuing a Declaration of Default, the Defaulting Member shall:
- a. subject to Rule 6.2.3(c) of this Derivatives Rulebook, cease to take any action in respect of its Trades/Transactions;
  - b. not enter into any new Trades/Transactions; and
  - c. comply with any directions of The Exchange.
- 6.2.4 Upon The Exchange issuing a Declaration of Default, each Member who is not a Defaulting Member shall work cooperatively with The Exchange and comply with any reasonable directions of The Exchange in relation to the Exchange's actions under this Chapter 6.
- 6.2.5 Upon The Exchange issuing a Declaration of Default or at any time afterwards, The Exchange may terminate the Defaulting Member's membership of The Exchange with immediate effect by giving written notice to the Defaulting Member. The Defaulting Member shall remain subject to Rule 3.11.4 of this Derivatives Rulebook.

**6.3 Calculation and certification of net amount**

6.3.1 Upon The Exchange issuing a Declaration of Default, The Designated Clearing House Default Rules will apply.

**6.4 Notification to other Members and cooperation with the regulatory authorities**

6.4.1 The Exchange may notify the Members that are not Defaulting Members of the actions taken under The Exchange Default Rules at various other points in the process.

6.4.2 The Exchange may share information (including information received from or about any Member), and otherwise cooperate, with any regulatory authority, exchange or the Designated Clearing House and any office holder acting in relation to the Defaulting Member in relation to the issue of a Declaration of Default.

**6.5 Costs**

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.

## **CHAPTER 7**

### **LISTING OF DERIVATIVES**

- 7.1 The Exchange shall have the power to:
- a. add Products to or remove Products from the list of Derivatives kept in terms of The Exchange Derivatives Rules, or suspend Products from such list; and
  - b. Impose new conditions on or amend the existing conditions of such Listed Products.
- 7.2 Members may by written correspondence addressed to The Exchange or by any other manner prescribed by The Exchange, formally request for a Derivative to be admitted to trading on the Order Book with the parameters described in the relevant Product Specifications (“Listing Request”). Members shall provide the following information:
- a. the Underlying
  - b. whether it is a Future or an Option (Call or Put)
  - c. Option Type (where applicable)
  - d. the Expiration Month
  - e. the Strike Price (for Options only)
  - f. Settlement style (if applicable)
  - g. Tick size (if applicable)
  - h. Tick value (if applicable) or any information requested by The Exchange.
- 7.3 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.
- 7.4 In the event of a delisting of the Underlying, The Exchange will take appropriate measures to;
- a. Order the delisting and early termination of the Listed Product to guarantee orderly exchange trading with regards to the concerned Transactions.
  - b. The NSE shall determine the price to be used for the Settlement of the Transaction.
  - c. Notify Members with regards to delisting and early termination of the Listed Products and the determined price of the Settlement of the relevant Transactions.
- 7.5 The Exchange may, with regards to the trading of Listed Products:
- a. Suspend such trading if an orderly exchange trading appears to be temporarily threatened or if such suspension appears to be appropriate in order to protect the interest of the investing public.

- b. Discontinue such trading, if it appears possible that an orderly exchange trading can no longer be ensured.
- c. Notify Members on the measures taken with regards to the suspension and discontinuation of trading.

## **CHAPTER 8**

### **COMPLIANCE AND ENFORCEMENT**

- 8.1 The Exchange may request information from a Member to interview any employee of a Member about any matter which it considers may relate to The Exchange Derivatives Rules or to the integrity of The Exchange's Derivatives Market.
- 8.2 In relation to any request for information or interview, The Exchange expects the following standards to be met by the Members:
- a. The provision of accurate information in a timely manner about the Member business and Trades in a format, electronic or otherwise, specified by The Exchange;
  - b. The interview of any Representative of a Member which will be recorded in writing;
  - c. The provision of the information in English. Where any information to be provided to The Exchange are not in English, a translation of the information should be provided along with the original.
- 8.3 A Member shall comply or procure the compliance with any requirements of The Exchange made pursuant to these Rules.
- 8.4 A Member is responsible to The Exchange for the conduct of its Representatives when conducting activities and business related to The Exchange. Such conduct shall be treated for the purposes of The Exchange's Derivatives Rules as the conduct of the Member.
- 8.5 A Member shall not provide The Exchange with any information (including information for the purpose of becoming a Member) which is false, misleading or inaccurate and shall comply or procure compliance with a request by The Exchange for explanation or verification of information provided to The Exchange
- 8.6 Where The Exchange believes there has been a breach of The Exchange Derivatives Rules by a Member, The Exchange may, without prejudice to all its other rights under The Exchange Derivative Rules to summarily sanction a Member in certain circumstances, commence disciplinary action against such Member in accordance with the Disciplinary Procedure of The Exchange.
- 8.7 The Exchange may bring disciplinary action against a former Member pursuant to Rule 3.11.4 of this Derivatives Rulebook.