

**RULEBOOK OF THE NIGERIAN STOCK EXCHANGE**  
**(DEALING MEMBERS' RULES)**

**RULES ON ORDER HANDLING AND BEST EXECUTION<sup>1</sup>**

**Definition**

**Execution Factors** includes price, costs, speed, likelihood of execution and settlement, size, nature, fill rate, price improvement, market impact or any other consideration relevant to the execution of an order.

**Discretionary Account** means an investment account that allows a Dealing Member to buy and sell securities without a requirement that the client specifically consents to each separate transaction. To do this, the brokerage agreement executed by the client with the Dealing Member shall include a discretionary disclosure clause as documentation of the client's consent to the Dealing Member's operation of the account in this manner. However, the Dealing Member shall make buy and sell decisions in accordance with the client's stated investment goals.

**Best Execution Principle**

1. Every Dealing Member shall at all times when acting for a client in the purchase or sale of securities, adhere to the best execution principle by taking reasonable steps to obtain the best available result for the client within the shortest time frame, provided that the Dealing Member shall at all times act in accordance with the terms and conditions of the order from the client.
2. Where a Dealing Member deals on its proprietary account and the counter party to the transaction is the same Dealing Member's client, to ensure compliance with the best

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**<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 4 July 2016, and approved for exposure to stakeholders for comments;
2. The draft Rules were exposed for stakeholders' comments from 13 October to 14 November 2016;
3. The RAC considered the draft Rules, and stakeholders' comments thereon at its Meeting of 29 November 2016, 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 26 January 2017 for submission to the Securities and Exchange Commission (SEC);
5. The Council approved Rules were submitted to the SEC for approval on 1 February 2017.
6. The Rules were approved by the SEC on 16 October 2017.

execution principle, the transaction shall be treated as an execution of the client's order, and not the Dealing Member's.

3. The Dealing Member's obligation to deliver the best possible result when executing client orders shall apply to all types of securities.
4. The Dealing Member shall apply its best execution obligations in a manner that takes into account the different circumstances associated with the execution of orders related to particular types of securities.

### **Best Execution Criteria**

5. When executing a client's order, a Dealing Member shall take into account the following criteria for determining the relative importance of the execution factors:
  - i. the characteristics of the client, including the categorization of the client as retail or institutional;
  - ii. the characteristics of the client order i.e. Good Till Month (GTM), Day Order, Good Till Open (GTO), Fill or Kill (FOK), All or None; and
  - iii. the characteristics of securities that are the subject of that order, including expected return, risk, liquidity, and volatility.

### **The Role of Price**

6. Where a Dealing Member executes an order on behalf of a retail client, the best possible result shall be determined in terms of the total consideration, representing:
  - i. the price of the securities;
  - ii. the costs related to execution, which shall include all expenses incurred by the client that are directly related to the execution of the order;
  - iii. fees for execution, clearing and settlement; and
  - iv. any other fees paid to third parties involved in the execution of the order.
7. When executing a retail client's order for discretionary investor accounts, a Dealing Member shall take into consideration all factors that will allow it to deliver the best possible result in terms of the total consideration, representing:
  - i. the price of the securities and the costs related to execution;
  - ii. speed;
  - iii. likelihood of execution and settlement;
  - iv. the size and nature of the order;
  - v. market impact; and
  - vi. that any other implicit transaction costs may be given precedence over the immediate price and cost consideration only, as long as they are instrumental in

delivering the best possible result in terms of the total consideration to the retail client.

## **Order Execution**

8. Clients' order execution includes:
  - i. the execution of orders on behalf of clients; and
  - ii. the transmission of client orders to other entities for execution when providing the service of reception, and transmission of orders.
  
9. Each Dealing Member shall:
  - 9.1 Establish and implement effective arrangements for achieving the best possible result for its clients.
  
  - 9.2 Establish and implement an order execution policy to allow it to obtain, for its client orders, the best possible result in accordance with that obligation.
  
  - 9.3 Provide appropriate information to all its clients about its order execution policy, and display its order execution policy on its website at all times.
  
  - 9.4 Provide its clients with its order execution policy in good time prior to the provision of its services.
  
  - 9.5 Establish and implement an order execution policy which shall contain:
    - i. an explanation of the relative importance that the Dealing Member assigns, in accordance with the execution criteria, to the execution factors, or the process by which the Dealing Member determines the relative importance of those factors;
  
    - ii. a clear and prominent warning that any specific instructions from a client may prevent the Dealing Member from taking the steps that it has ordinarily designed and provided in its execution policy to enable it obtain the best possible result for the execution of those orders.
  
  - 9.6 Determine the relative importance of the execution factors or establish the process by which it determines the relative importance of the factors.
  
  - 9.7 Apply its execution policy to each client order.

- 9.8 Monitor the effectiveness of its order execution arrangements and policy on a regular basis in order to identify and, where appropriate, correct any deficiencies.
10. Each Dealing Member's execution policy shall determine the relative importance of each of the execution factors or establish a process by which it will determine the relative importance of the execution factors. The relative importance that a Dealing Member gives to those execution factors shall be designed to obtain the best possible result for the execution of its clients' orders.
11. Each Dealing Member shall:
- 11.1 Notify its clients of any change to its order execution arrangements or execution policy.
  - 11.2 Review its execution policy, as well as its order execution arrangements annually. The review shall also be carried out whenever a material change occurs that affects the Dealing Member's ability to obtain the best possible result for the execution of its clients' orders on a consistent basis.
  - 11.3 Be able to demonstrate to its clients and The Exchange, upon request, that it has executed its clients' orders in accordance with its execution policy. The Dealing Member shall comply with all audit trail requirements as provided in these Rules.
  - 11.4 Act in the best interests of its clients whilst receiving and transmitting its client's orders to other entities for execution.

#### **Following Clients' Specific Instructions**

12. Each Dealing Member shall:
- 12.1 Execute its client's specific instructions.
  - 12.2 Take all reasonable steps to obtain the best possible result for a client whilst executing an order, or a specific aspect of an order.
13. Where a Dealing Member executes an order following specific instructions from its client, the Dealing Member shall be deemed to have satisfied its best execution policy only in respect of the part or aspect of the order to which the client's specific instructions relate. The specific instructions shall not be treated as being applicable to any other parts, or aspects of the client's order in relation to the Dealing Member's best execution obligation, except there is proof to the contrary.

14. No Dealing Member shall induce its client to issue instructions to execute an order in a particular way, by expressly indicating or implicitly suggesting the content of the instruction, when the Dealing Member ought reasonably to know that such instruction is likely to prevent the best possible result for that client.

#### **Client Order Handling**

15. Every Dealing Member shall implement procedures and arrangements which provide for the prompt, fair and expeditious execution of clients' orders.
16. Whilst carrying out client orders, each Dealing Member shall:
- 16.1 ensure that orders executed on behalf of clients are promptly and accurately recorded and allocated; and
  - 16.2 inform its client about any material difficulty relevant to the proper execution of orders promptly upon becoming aware of the difficulty.
17. No Dealing Member shall misuse information relating to pending client orders, and each Dealing Member shall take all reasonable steps to prevent the misuse of such information.

#### **Aggregation and Allocation of Orders**

18. No Dealing Member shall execute a client's order in aggregation with another client order unless the following conditions are met:
- i. the aggregation of orders and transactions will not work against acceptable fair allocation methodology. Acceptable fair allocation methodologies shall be published from time to time by The Exchange.
  - ii. an order allocation policy is established and effectively implemented, providing in sufficiently precise terms for the fair allocation of aggregated orders and transactions, including how the volume, price and/or time of receipt of orders determines allocations and the treatment of partial executions.
19. i. Where a Dealing Member aggregates a client's order with one or more other orders and the aggregated order is partially executed, the Dealing Member shall allocate the trades in accordance with its order allocation policy.
- ii. The order allocation and best execution policy shall be one of the internal policy documents of Dealing Members firms, which shall state in precise terms, how order

executions shall be allocated to clients of the Dealing Member to ensure fairness at all times.

### **Prohibition of Aggregation and Allocation of Client Transactions with Dealing Member's Proprietary Account**

- 20 No Dealing Member shall aggregate a client's order with a transaction for the Dealing Member's proprietary account.

### **Audit Trail Requirements**

- 21 Dealing Members shall establish a system for order tracking and monitoring. This is to ensure that there is an end-to-end trail through the life cycle of an order.
- 22 Evidence of audit trail on all modified, cancelled and executed orders, shall be maintained in the Dealing Member's system. This is required to provide visibility into the entire life cycle of an order. To facilitate this, Dealing Members shall ensure that they have time stamps and other reliable methods of recording the timing of receipt of orders.

### **Sanctions**

- 23 Any Dealing Member that fails to maintain an audit trail, shall be liable to pay a fine of not less than Three Hundred Thousand Naira (~~₦~~300,000.00).
- 24 Any Dealing Member that contravenes any of the above Rules, save for the Rule that requires Dealing Members to maintain an Audit Trail, shall be liable to pay a minimum fine of ~~₦~~250,000.00 (Two Hundred and Fifty Thousand Naira) in addition to any other penalties as may be prescribed from time to time by The Exchange.