



The NSE Guidelines for Supplemental Market Maker

One of the major strategies embarked on by the Management of The Nigerian Stock Exchange as a means of increasing Investors' confidence, deepening the market and addressing lack of liquidity in the market is the introduction of the Supplemental Market Maker (SMM) program to support the existing Primary Market Maker (PMM) program. The following guidelines shall be applicable to the SMMs on The Exchange.

1. Applicability

These guidelines are applicable to all registered SMMs on the Nigerian Stock Exchange.

2. Registration

The Dealing member-firm desirous of acting as SMM shall apply to the Exchange in writing. Any dealing member of the Exchange would be eligible to act as SMM provided the criteria laid down by the Exchange are met. These criteria include:

- a. Must be a licensed Broker-Dealer on The NSE
- b. Must be registered with SEC and CSCS as a Broker-Dealer
- c. Must meet the minimum Capital requirement set for SMMs on a continuous basis
- d. Experience, expertise and past performance in the market
- e. Operational capability in terms of appropriate staffing, technology and risk management tools.
- f. Disciplinary history
- g. Applicant must be in good standing with SEC, NSE and CSCS.

3. Allocation of Securities

A Dealing member-firm desirous of acting as SMM shall in addition to its application in writing select a minimum of ten (10) securities in order of preference from the securities listed on The Exchange. Where two or more firms select the same security, the following criteria shall be used in breaking the tie:

- a. Net Liquid Capital
- b. Experience in market making
- c. Past Performance- (volume and value traded).

4. Obligations and responsibilities of a SMM

The SMM shall fulfill the following conditions to provide depth and continuity on the Exchange:

- a. The SMM shall be required to provide a 2-way quote for minimum of 60% of the time in a trading day, and a minimum percentage of the time at the national best bid and offer on a security by security basis;
- b. The Execution of the order at the quoted price and quantity must be guaranteed by the SMM. In other words, the quotes must be firm;
- c. The SMM will be eligible to change quotes even if no transaction has been executed at the displayed quote. In other words the quotes must be firm;
- d. The SMM quote shall be provided in such a way that the quotes are not absent from the screen for more than 15 minutes at a time;
- e. The SMMs may compete with the PMM for better quotes to the investors. Where the SMM outperforms the PMM four months out of a continuous six months period; the SMM shall have the right to apply to be upgraded to be the PMM for the security in question.
- f. Once a Broker-Dealer's application for SMM is approved, the company has to start providing quotes within ten (10) trading days of registration.
- g. Once registered as a SMM, the company has to mandatorily act in that capacity for a minimum of three months.
- h. The SMM is required to designate a Trader within the firm for each security that has been assigned by the Exchange to such SMM. A trader may make markets in more than one security;
- i. The SMM Firm shall provide the Exchange with the names of all Designated Traders and the security assignments, and forthwith advise the Exchange of any changes to such information within five days of the change.
- j. A SMM shall be allowed to deregister by giving one month notice to the Exchange in writing of its intention to resign. The Exchange retains the discretion to accept the resignation immediately.

5. Voluntary De-registration

The SMM may be allowed to de-register voluntarily from a particular security provided it has fulfilled its obligations for a minimum period of three months and a one-month notice is given to the Exchange.

6. Compulsory De-registration

If a SMM fails to fulfill its obligations as a SMM for more than five consecutive trading days, it will automatically stand de-registered from that security and may not be permitted to act as a SMM for any security for a minimum period of three months.

7. Rights and Restrictions of SMM

Rights:

The SMM shall have the following rights

- a. Right to short-sell a security in the Covered Short Sale construct approved for PMMs.
- b. Right to enjoy from Exchange rebate scheme for SMMs if they hit certain thresholds **(TBD)**.

Restrictions:

a. The SMM shall NOT have the right to determine the opening and closing price of the security where they act as SMM. However they can participate in all auctions, including the opening and closing auctions.

8. Dissemination of Information

The Exchange shall disseminate a list of SMMs for the respective securities and their performance to the public via The Exchange's website.

9. Number of Securities per SMM

A SMM shall submit a list with a minimum of 10 securities. Additional securities shall be linked to the capital adequacy of the SMM.

10. Number of SMMs per Security

The Exchange shall appoint a PMM and up to two SMMs per Security.

11. Minimum Capital

Market Marker Type	Minimum Net Liquid Capital
Supplemental Market Maker Only	N320m (N70m + N250m)
Existing Primary Market Maker - Equities	N820m (N70m + N500m + N250m)
Existing Primary Market Maker - Bonds	N820m (N70m + N500m + N250m)
Existing Primary Market Maker – Equities & Bonds	N1,320b (N70m + N500m + N500m + N250m)

The Exchange reserves the right to demand additional capital based on the risk profile of the Market Maker.

12. Liquidity Provider

The Exchange shall in conjunction with the Central Bank of Nigeria explore the possibility of the Settlement Banks providing funds to the SMMs and creating corresponding lien on the shares held/traded by the marker makers.

13. Monitoring SMM activities

The Exchange shall monitor the activities of SMMs. Any violation of these requirements would be liable for punitive action to be taken by The Exchange.

14. Risk Management and Technology Requirement

The SMM shall have a risk management tools that has facilities for measuring risks, reporting on trading activities and implementing proper financial controls. The Nigerian Stock Exchange expects the risk management tools/technology to have the following features in addition to others:

a. The technology should be able to compute Value-at-Risk (VAR), using any or all of the following methods

☐ Historical simulation

☐ Monte Carlo simulation – using probability estimates

☐ Mean variance approach

b. Inventory of all borrowed securities, with appropriate administration data to manage borrowings, associated collaterals, corporate actions etc.

c. Stress Testing – to look at extreme market conditions.

d. The system must be able to mark-to-market at any time.

e. Alerts – automatic triggers based on specified risk levels.

f. Robust Database with the ability to store current and historical prices

15. Trading Technology

The Nigerian Stock Exchange intends to operate Straight-through-processing (STP) for the End-to-End (E-to-E) transactions. In order to implement STP environment, the Broker-dealer internal systems will be fully integrated with the Exchange's systems, enabling effective flow of market information that will facilitate and improve the decision making process. The Broker-Dealer internal systems should support the following:

a. FIX-enabled Execution Management System

b. Real-time Market data

c. Secure and capable connectivity

16. PMMS as SMMs

An existing PMM cannot be a SMM in a security in which the firm is appointed as PMM.

17. Marketing Support

An appointed SMM is expected to support the Exchange and other market participants in promoting the securities in which they make markets.