



## MARKET MAKER RULES

### NASD OTC RULES FOR MARKET MAKERS

#### 1. SCOPE

The scope of these Rules are issued by NASD OTC PLC and will refer to any activity carried out by Market Makers or liquidity providers on the NASD OTC Market hereinafter referred to as “the OTC Market”.

#### 2. DEFINITION

- 2.1 Instruments- securities as defined by the Investment and Securities Act as may be amended from time to time.
- 2.2 ‘Market Makers’ or ‘Liquidity Providers’ are Participating Institutions who have registered with NASD with the intent to provide continuous liquidity on pre-identified securities trading on the NASD OTC market.
- 2.3 NASD- National Association of Securities Dealers
- 2.4 Participating Member- a member company that has been granted a license to deal in securities by the NASD
- 2.5 Mandatory Period- the period during the NASD trading hours to be communicated from time to time during which the Market Maker will be required to make market

#### 3. SYSTEMS

- 3.1 The systems guiding Market Makers shall be ‘quote driven’ or ‘order driven’

##### 3.1.1 Quote-driven System

In the Quote- driven system, Market Makers will provide two way quotes where one side of the quote shall match the upper or lower limit of the price band. Market maker quotes are to be maintained throughout the mandatory period until the end of the closing auction which includes any price monitoring extensions and random end periods.

Where a market maker is approached by a member firm, other than a market maker in that security, it shall actively offer to buy and sell at its displayed price and in any size up to that displayed in its firm quote.

Where on enquiry a market maker quotes a price in a size larger than it is displaying on the trading system, the market maker is obliged to deal at that quoted price and size.



## MARKET MAKER RULES

### 3.1.2 Order- driven System

In the Order-driven systems, Market Makers will provide liquidity for securities within the +/-15% price band.

A market maker must maintain an executable quote in each security in which it is registered for at least 90% of continuous trading during the mandatory period.

If a market maker and its customer or counter-party conduct an Exchange trade away from the trading system, the market maker shall not deal below its displayed price and size.

## 4. ELIGIBILITY

4.1 A Market Maker must:

- 4.1.1 Be registered with the Securities and Exchange Commission [“SEC”]
- 4.1.2 Be incorporated as a company and shall employ competent and suitable personnel with the requisite knowledge and qualification to carry out activities in the securities business.
- 4.1.3 Satisfy NASD that it has the appropriate technical infrastructure, professional and organizational capabilities that will allow it discharge its obligations as a Participating Institution.
- 4.1.4 Satisfy NASD that it has in place documented policies, procedures and controls (including risk management standards, controls for the prevention of money laundering and terrorist financing) to ensure that it will comply on a continuous basis with all requirements imposed by the Market Making Rules and the General Rules and Regulations of the NASD OTC Market.
- 4.1.5 Be sponsored by two NASD Participating Institutions
- 4.1.6 Have the minimum capital adequacy required by SEC.
- 4.1.7 Provide evidence from a financial institution that it has the financial capacity or a credit line adequate to function as a Market Maker.

## 5. REGISTRATION

5.1 Market Makers must be registered as members of NASD and must make available all required documents to NASD upon registration as enumerated in NASD’s Form 1a and 1b.

5.2 The Application fee for Market Makers which shall be subject to change by NASD are as follows:

- 5.2.1 Market Maker Function only - ₦200,000.00
- 5.2.2 Market Maker/ Broker-Dealer Function - ₦300,000
- 5.2.3 All Annual fees will be ₦100,000.00



## **MARKET MAKER RULES**

5.3 Market Makers shall maintain a Fidelity Bond of 25% of their share capital as required by NASD.

### **6. FUNCTIONS/ OBLIGATIONS**

6.1 Market Makers shall:

- 6.1.1 Have interests in a pre-identified security and shall act as last resort buyer /seller in cases of over /under supply of the security on the market.
- 6.1.2 Enter and maintain a two-sided trading interest in line with Clause 3 to be displayed on the NASD OTC Market's Quotation board through the course of each trading day
- 6.1.3 Stimulate continuous liquidity at every time.
- 6.1.4 Serve as a source of market information, and make such information readily available.
- 6.1.5 Adhere to all provisions of the NASD OTC Market Rules and the Market Maker Agreement.
- 6.1.6 Be permitted to undertake margin trading or lending and borrowing in the particular securities market being expanded.
- 6.1.7 Where it has conducted a trade on an OTC security away from the trading system report the agreed price and size of the transaction.

### **7. WITHDRAWAL FROM MARKET MAKING AND INACTIVE STATUS**

- 7.1.1 Where a Market Maker intends to withdraw its market making services in respect of identified security(ies) or assume the status of an inactive Market Maker, it shall inform NASD in writing and obtain approval of its withdrawal or grant of an inactive status.
- 7.1.2 Withdrawals and granting of inactive status shall be made by the Rules and Membership Committee of the NASD upon the proof of the occurrence of any or all of the following events:
- 7.1.3 Where it experiences systemic equipment constraints which make it difficult or impossible to undertake its obligations under the Agreement.
- 7.1.4 Where there are legal or regulatory changes which make it illegal or impossible for the Market Maker to carry out its obligations under the Agreement.
- 7.1.5 Where there occur circumstances beyond the control of the Market Maker.



## **MARKET MAKER RULES**

### **8. INFRASTRUCTURE**

- 8.1.1 Market Makers shall have adequate physical and technological equipment sufficient for trading and connected activities at their head offices as required and regulated by NASD.
- 8.1.2 Such physical and technological infrastructure should be documented in a Business Continuity Plan (BCP) and Risk Management framework.

### **9. DISCIPLINARY MEASURES AND DISPUTE RESOLUTION**

In breach of the obligations above, Market Makers shall be brought before a Disciplinary Committee and shall have the right to appeal in line with the Disciplinary measures and Dispute Resolution provisions contained in Clause 6 to 9 of the General Rules and Regulations of the NASD OTC Market.