

MARKET CIRCULAR 48

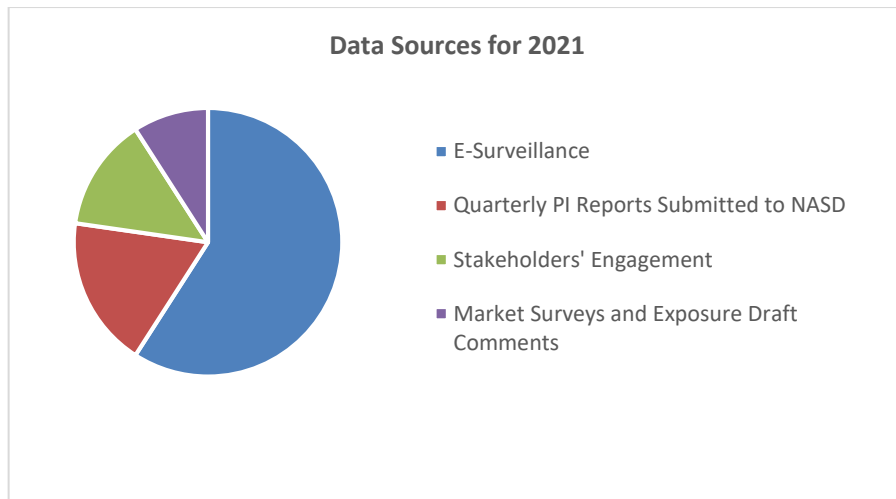
To: Market Participants
From: NASD OTC Securities Exchange
Date: April 19, 2021
Circular No 48: COMPLIANCE & SURVEILLANCE PRIORITIES FOR 2021

1.0. INTRODUCTION

- 1.1. In the wake of the global pandemic which disrupted businesses and economies, and in pursuit of NASD PLC's role of maintaining market integrity, we hereby set forth in this circular our compliance and surveillance priorities for the year 2021.
- 1.2. We encourage Participating Institutions (PIs) to take note of the priorities stated in this circular and assess their governance and compliance frameworks against these priorities.
- 1.3. NASD will continue to work closely with the Securities and Exchange Commission (SEC), Central Securities Clearing System (CSCS), and other stakeholders to strengthen its data collection system in respect of Participating Institutions.

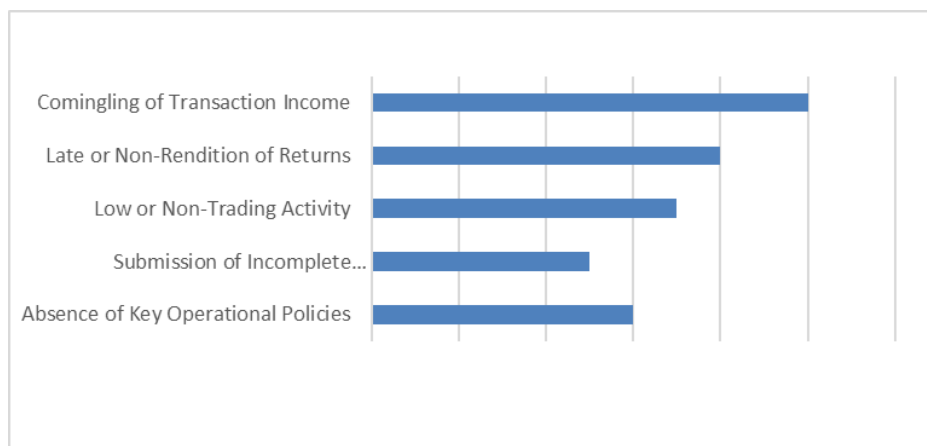
2.0. EVALUATION OF 2020 PERFORMANCE

- 2.1. Due to the restrictions on physical gathering in the previous year, we were unable to conduct physical inspection of the activities of Participating Institutions. In line with our Business Continuity Plan, we activated remote/virtual surveillance and inspection through which we were able to collate data regarding activities of Participating Institutions.
- 2.2. As at Q3 2020, we had conducted 72 off-site inspections which is 57.03% of the total number of PIs registered on the NASD OTC market. While we observed increased compliance in comparison with 2019 results, we noticed quite a number of shortfalls which came to light largely due to the spread of the coronavirus pandemic.



2.3. Some of the frequently noticed issues include:

- Comingling of Transaction Income
- Absence of key operational policies such as: Business Continuity Plan, AML Policy, Complaints Policy, Risk Management Policy
- Submission of incomplete documentation
- Late or non-rendition of Returns
- Low to non-trading activity.



3.0. NASD’S KEY SUPERVISION & COMPLIANCE PRIORITIES FOR 2021

Our inspections will continue to focus on high-risk issues identified based on the outcome of our analysis of 2020. We shall also take into consideration market conditions and prevailing activity at the time of review. Specific areas which we shall focus on in our inspection, surveillance and compliance activities during the year 2021 are:

- 3.1. Market Manipulation**
- NASD will strengthen its supervisory oversight on PIs to detect and prevent market manipulation and promote a transparent, free and orderly market. We conversely expect PIs to sufficiently develop their trading management systems. This includes identifying transactions that are likely to constitute unfair trading, conducting trading surveillance based on the results of such identification, taking appropriate measures against inappropriate transactions and responding in good faith to inquiries or complaints on unfair trading.
- 3.2. Comingling of Transaction Income**
- All Participating Institutions are required to operate a settlement bank account for their transaction income separate from the trading income generated through trade on other securities exchanges. The bank account should be opened as 'NASD Trading Income Account' and applied solely for trading activities on NASD. NASD shall periodically review the bank statements of Participating Institutions to ensure compliance with this requirement.
- 3.3. Unfunded Transactions**
- Settlement Accounts should be funded appropriately before execution of transactions in order to protect market integrity and enhance transparency. NASD shall periodically review trading accounts to ensure Settlement Accounts are properly funded before execution of trade.
- 3.4. Update of Records, Notification of Changes and Authorised Representatives**
- Participating Institutions trading on NASD OTC are required to immediately notify NASD of any changes in their corporate and business structure and operations. NASD shall periodically review the registration information of Participating Institutions to ascertain compliance with this requirement.
- NASD requires all PIs to have Authorised Representatives who must be approved and registered with NASD. These include Principal Officers such as the Managing Director, Compliance Officer as well as Authorised Traders. PIs are to immediately notify NASD of any change in their Authorised Representatives. NASD shall monitor PIs' compliance with this requirement.
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- 3.5. Cybersecurity**
- Due to the increased number of remote transactions which has also led to higher risks and vulnerabilities, NASD will require PIs to show internal measures that have been put in place to ensure fortified cybersecurity.
- 3.6. Corporate Governance Requirements & Reporting**
- NASD shall expect all PIs to adhere to all provisions of the Nigerian Code of Corporate Governance 2018 as well as the Securities and Exchange Commission's Code of Corporate Governance especially as it bothers on financial reporting and notifying NASD about critical changes in the Management or Board composition.
- 3.7. Operational Policies**
- NASD urges all PIs to ensure that all required plans and policies are in place as it forms a crucial portion of our inspection/surveillance. We shall critically examine the existence of Business Continuity Plans, Complaints Management Policy, AML Policy, Risk Management Policy among others.

4.0. CONCLUSION

- 4.1. NASD will expand its oversight of PIs through proactive surveillance, improved standards and driving behavioral change. We expect all firms to have a professional and robust approach to conduct, to operate with integrity and to act in the best interest of their clients.
- 4.2. In compliance with the requirements of Nigeria Centre for Disease Control to reduce the level of social and physical contact, NASD has since suspended its physical supervision activities. All supervisory activity such as requests for information and transaction reviews will be carried out electronically from our offsite desk that shall from time to time send out checklists and enquiry forms as necessary. We count on your usual co-operation to respond to the desk in a timely manner.
- 4.3. NASD shall recognize Participating Institutions that have shown a record of 100% compliance.
- 4.4. We shall continue to undertake relevant research to inform future surveillance work and the establishment of regulatory expectations.

For enquiries on the above, please contact us at legalcompliance@nasdng.com, or oolajubu@nasdng.com. You can also reach us on +2348137383459.

Thank you.



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