

MARKET CIRCULAR 36

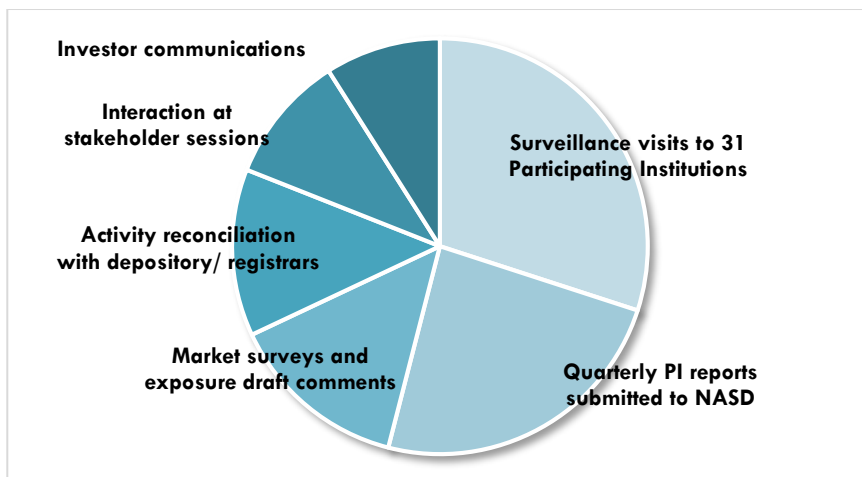
To: OTC Market Participant
From: NASD OTC Securities Exchange
Date: 03 JANUARY 2020
Circular No. 36: NASD SURVEILLANCE AND COMPLIANCE PRIORITIES FOR 2020

1.0. INTRODUCTION

- 1.1. In pursuance of our role in maintaining market fairness and reliability, NASD has developed and herewith sets out in this circular, our surveillance and compliance priorities for the year 2020.
- 1.2. Participating Institutions (PIs) registered with NASD are encouraged to plan for the year ahead by assessing their governance and compliance frameworks against these priorities.
- 1.3. NASD will 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.

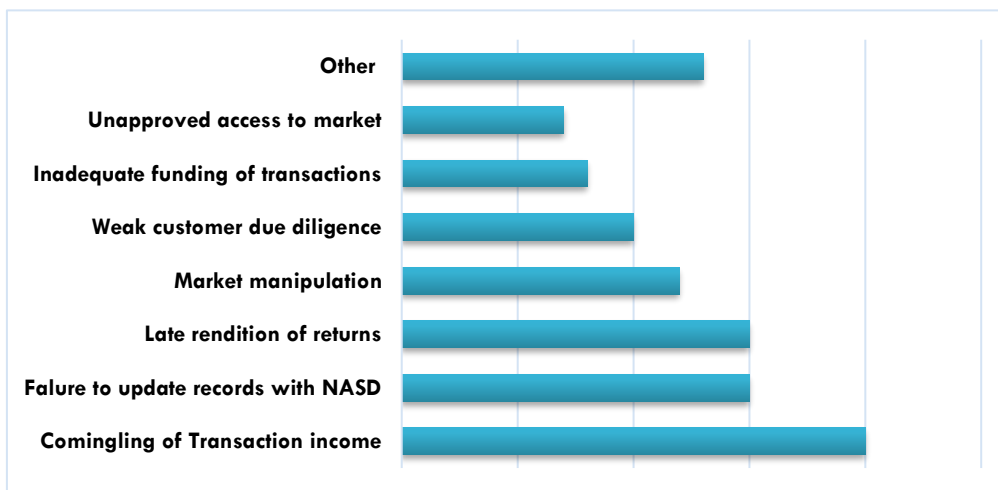
2.0. BACKGROUND: 2019 SNAPSHOT

- 2.1. In 2019, we built and analyzed data on the operations and activities of Participating Institutions on the NASD OTC Securities Exchange.
- 2.2. Sources of data collated included:





2.3. Although our inspection activities commenced in 2019, the issues encountered most frequently during our review were as follows:



3.0. NASD’S KEY SUPERVISION AND COMPLIANCE PRIORITIES FOR 2020

Our inspections will focus on high risk issues identified based on the outcome of our analysis of 2019. 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 2020 are:

3.1. Comingling of Transaction Income

NASD recognizes the need for all Participating Institutions 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.

3.2. 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.

3.3. 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.

3.4. Customer Due Diligence

In addition to verification of clients' identity via valid means of identification such as International passport and National Identity card, NASD requires Participating Institutions to obtain full information on clients' businesses and sources of income in order to ascertain the financial worth of clients and mitigate money laundering. NASD shall review PIs records to ascertain compliance with this requirement.

3.5. Update of Records, Notification of Changes and Approved Persons

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 and 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.

3.6. Minimum Capital Requirement

Following the release of new regulations regarding insurance policies of capital market operators, NASD will focus on PI's compliance with the minimum capital requirements for business operations as set by the Securities and Exchange Commission vis a vis appropriate computation of annual insurance policies. We shall put in place mechanisms for the early detection of the potential failure of any Firm and mitigation of client losses. The protection of client assets is our priority, in addition to the potential impact of failures on market integrity.

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. NASD will also revisit Participating Institutions that do not meet our compliance expectations to ensure resolution of identified issues.
- 4.3. 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 the undersigned at i-uba-onubogu@nasdng.com or +2349024559686.

Thank you.



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