

1 ESTABLISHMENT

In line with the provisions of Rule 1(6)(6) of the Rules and Regulations of the NASD OTC Market, the Board of Directors of NASD Plc seek to establish a Trade Guarantee Fund.

2 DEFINITION OF TERMS

For purposes of these Rules, the following definitions shall apply, as stated below:

“Board” means the Board of Directors of NASD Plc;

“Central Securities Depository (CSD)” means any CSD approved by the Securities & Exchange Commission for NASD transactions;

“Contribution” means such amount(s) which NASD may require Participating Institutions to pay into the Fund;

failed trade” means Trades executed on the Market which do not comply with the settlement schedule of the Market;

“Fund” means the Trade Guarantee Fund of NASD Plc;

“NASD” means NASD Plc, a company incorporated under the laws of the Federal Republic of Nigeria;

“Market” means the securities exchange licensed by the Commission to establish and manage Over the Counter transactions in the Nigerian Capital Market;

“Market Rules” means the Rules and Regulations of the NASD OTC Market;

“Participating Institution” means any entity duly registered with the Commission and licensed with NASD to participate in the Market;

“Rules” means the Trade Guarantee Fund Rules of NASD;

“Commission” means the Securities & Exchange Commission;

“settlement schedule” means the trade cycle for equity and bond transactions on the Market;

“Trustees” means such persons and of such number as may be authorised by NASD to manage the Fund;

“working day” means any day other than a public holiday and weekends in Nigeria on which NASD is open for trading.

3 OBJECTIVES OF THE FUND

The objective of the Fund shall be to:

- a) Protect the investor's interest in the event of a settlement default;
- b) Ensure timely execution and settlement of transactions on the Market; and
- c) Promote the development and regulation of the Market and ensure that market equilibrium is not disturbed in the event of payment defaults by Participating Institutions.

4 SCOPE OF THE FUND

The Fund shall cover equity and bond transactions for which clearing and settlement is done using the delivery-versus-payment model on the Market.

5 CONTRIBUTIONS TO THE FUND

5.1 The Fund assets shall consist of:

- a) A one-time contribution of ₦100,000 (One Hundred Thousand Naira) by all registered and intending Participating Institutions. A firm seeking registration with NASD shall make the initial contribution into the Fund not later than five (5) working days from the receipt of its Trading License and shall not be allowed on the Market until receipt of the payment.
- b) Interest and profits which may accrue from the investment of the Fund.

5.2 a) NASD may call from each Participating Institutions an additional contributions of ₦50,000 (Fifty Thousand Naira) to make up for any short fall in the Fund.

- b) Where Participating Institutions are required to make additional contributions to make up for any short fall in the Fund, the same shall be made not later than three (3) working days from the receipt of notification from NASD.

- c) NASD may commence Disciplinary action against Participating Institutions which fail to make such additional contributions in (a) above.

5.3 NASD reserves the right to modify, suspend or discontinue the sources of contribution to the Fund.

6 USE OF FUND ASSETS

- 6.1 The Trustees shall apply the assets of the Fund solely for the purpose of settling failed trades arising from the inability of Participating Institutions to meet their financial obligation.
- 6.2 No withdrawal or appropriation of any part of the assets shall be made without authorisation by the Trustees.
- 6.3 Assets in the Fund not immediately required shall be invested by the Trustees.

7 PAYMENTS OUT OF THE FUND

The Trustees may from time to time make the following payments from the Fund:

- a) Payments to meet default obligations during clearing and settlement of transactions executed on the Market.
- b) premium due in respect of contracts of insurance entered by the Trustees in respect of the Fund.
- c) All expenses properly incurred in connection with the creation, administration and management of the Fund.

8 PENALTIES

A Participating Institution in default of the settlement provisions of the Market Rules shall:

- a) Pay ₦50,000 (Fifty Thousand Naira) or one percent (1%) of the net value of the failed trade whichever is higher as penalty not later than twenty four (24) hours from the receipt of notification of the failed trade. Ninety percent (90%) of this penalty shall be transferred to the Fund. The remaining 10% shall be equally divided between NASD and its Central Securities Depository.
- b) Be suspended until repayment of the amount made out from the Fund in the settlement of the failed trade.
- c) Have its stock account frozen until restoration of the Fund.
- d) In addition to (a) and (b), be expelled from the Market where the failed trade is executed by a single Participating Institution (that is, the buy and sell order originate from the same Participating Institution).

9 RESTORATION OF THE FUND

- 9.1 Participating Institutions shall repay into the Fund any amount made out by the Fund in the settlement of a failed trade including such fees or other charges incurred by the Fund not later than 9:00am on the working day immediately succeeding the last day of the settlement schedule.
- 9.2 Provided that the Fund shall have the right to sell the securities of a Participating Institution that executes a failed trade in order to restore the Fund.

10 REVIEW OF FUND CONTRIBUTION

- 10.1 NASD reserves the right to review the contributions made to the Fund by Participating Institutions.
- 10.2 NASD shall give a notice of two (2) months to Participating Institutions of any proposed adjustment in their contribution to the Fund.

11 ACCOUNTS AND REPORTING

NASD shall provide the Commission with quarterly reports within 1 (one) month of the end of each quarter which shall include:

- a) A statement showing the movements in the Fund and assets and liabilities of the Fund during the quarter under review; and
- b) A statement showing the movements in the Fund and assets and liabilities of the Fund at the end of each year.

12 RECORDS

NASD shall maintain records which show and explain the activities of the Fund.