



SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

Interoperability Among Central Securities Depositories

Proposed Interoperability/FMI Link Framework

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PROPOSED INTEROPERABILITY/FMI LINK FRAMEWORK AMONG CENTRAL SECURITIES DEPOSITORIES

Introduction

The Nigerian capital market has witnessed remarkable growth in the last few years in terms of size, market participants and tradable instruments. This has impacted the market structure in terms of composition and interconnectedness. In the secondary market particularly, there are currently multiple trading platforms and Financial Market Infrastructures (FMIs) which provide comparative services in depository, trading, clearing and settlement activities.

Consequently, Interoperability arrangement has become necessary in order to enhance the efficiency of trading and settlement functions as well as align the market with international best practices. According to the Committee on Payments & Market Infrastructures and International Organization of Securities Commissions (CPMI-IOSCO) Principles on FMIs, FMI link is a set of contractual and operational arrangements between two or more FMIs that connect the FMIs directly or through an intermediary. The Interoperability arrangement will potentially liberalize trading and settlement activities, enhance efficient deployment of capital as well as cost effectiveness in the market.

It is in this regard and the need to ensure the efficiency of the market and the protection of investors that this framework is being issued. In the Interoperability arrangement, as recommended by the CPMI-IOSCO Principles for FMIs, relevant provisions have been made for identification, monitoring and management of inter-link risks by the respective CSDs with the overall objective of reduction in systemic risks.

This framework is being issued in line with the mandate of the Commission to regulate the capital market with the objective of ensuring protection of investors, maintaining fair and efficient market as well as reduction of potential systemic risks in trading, clearing and settlement ecosystem. In this regard, all Securities Exchanges and Central Securities Depositories (CSDs) are required to comply with the following:

1. Take necessary steps to put in place requisite infrastructure and systems for implementation of the framework, including any amendments to the relevant rules and regulations;
2. Bring to the attention of their members and Participants the provisions of this framework as well as publish the same on their websites;
3. Communicate to the Commission, the status of implementation of the provisions of this framework within three months of the date of issuance of the framework;



Definition of Terms

1. **CSD** - means Central Securities Depository;
2. **Interoperability** – means the technical and/or legal compatibility that enables a system or mechanism to be used in conjunction with other systems or mechanisms;
3. **Interoperable Link** - For the purpose of this framework, Interoperable Link means a set of contractual and operational arrangements between two or more CSDs that connect the CSDs with the objective of providing facilities for delivery versus payment settlement between the interoperable CSDs' Participants;
4. **Participant** - For the purpose of this framework, Participant means a Capital Market Operator registered by the Commission as a Broker, Dealer or Broker/Dealer.

Scope

1. The Interoperability Framework shall be applicable to all CSDs.

Interoperability Requirements

1. CSDs shall:
 - a) establish a peer-to-peer link to facilitate Interoperability with each other and put in place the required infrastructure, systems, processes and risk management for the effective operation of the interoperable arrangement and not subject each other to normal Participants (membership) rules;
 - b) allow for fair and open access to their services based on reasonable risk-related access requirements;
 - c) have adequate reconciliation procedures to ensure that their respective records are accurate and current;
2. The interoperable arrangement shall allow investors and Participants settle fixed income securities on a beneficial ownership basis through any CSD in which they maintain CSD account(s) irrespective of the Issuer CSD in which the securities are domiciled and/or the investor CSD account of the counterparty;
3. Investors shall have the option to maintain any CSD account(s) in a single CSD of their choice or maintain any CSD account(s) in multiple CSDs of their choice or consolidate any existing CSD account(s) into a single CSD of their choice and execute a trade across multiple Exchanges under the interoperable arrangement provided that the fixed income securities are listed on the respective multiple Exchanges. Consolidation of any CSD account(s) shall be



subject to relevant KYC due diligence requirements and on the basis of beneficial owner authorization;

4. Participants shall have the choice to maintain any CSD account(s)/membership in a single CSD of their choice or maintain any CSD account(s)/membership in multiple CSDs of their choice or consolidate any existing CSD account(s)/membership on the basis of beneficial ownership into a single CSD of their choice and execute a trade across multiple Exchanges under the interoperable arrangement provided that the fixed income securities are listed on the respective multiple Exchanges;
5. Investors and Participants shall under the interoperable arrangement settle their trades successfully irrespective of the Securities Exchange where the trade is executed provided that the fixed income securities are listed on the respective multiple Exchanges;
6. Risk management requirements between CSDs shall be based on a mutually agreed arrangement and shall take into consideration the relevant risks issues;
7. A CSD shall:
 - a) Identify, measure, monitor, and manage all the risks associated with its Interoperability with another CSD;
 - b) ensure deployment of the needed resources to monitor operations associated with Interoperability arrangement;
8. The Interoperability arrangement shall ensure the establishment of a communication link among CSDs;
9. Custodians are allowed to specify the designated CSD separately for each of their clients provided that such specifications are based on written mandates received from their clients;
10. All trades executed arising from the interoperable arrangement shall be settled in line with the interoperable arrangement agreed among CSDs;

Interoperable Agreements

Interoperable agreements entered into between Securities Exchanges/CSDs shall provide for the following among others:

1. Rights and obligations;
2. Confidentiality
3. System requirements and capability;
4. Inter-CSD links and CSD-trading venue link;
5. Risk management framework;
6. Clearing and settlement process and obligations;
7. Surveillance systems;



8. Sharing of client data and product information subject to applicable client data protection and investor mandate requirements;
9. Retention period for data/information;
10. Intellectual property
11. Default management process;
12. Dispute resolution process.

Dispute Resolution

All complaints and disputes shall be handled in line with the rules and regulations of the Commission on complaint management.

Charges

All new charges associated with the interoperable arrangement against Participants shall be subject to approval of the Commission.