
AMENDMENTS TO RULE 15.29: PRICING METHODOLOGY
RULEBOOK OF THE EXCHANGE, 2015 (DEALING MEMBERS' RULES)

FREQUENTLY ASKED QUESTIONS

Introduction:

On March 14, 2017, The Exchange received the approval of the Securities and Exchange Commission (“Commission”) to the amendments to Rule 15.29: Pricing Methodology, Rulebook of The Exchange, 2015 (Dealing Members’ Rules), (“the Pricing Methodology Rule” or “the Rule”). The amendments to the Pricing Methodology Rule specify minimum pricing increments and minimum quantity traded that will change the published price of equity securities listed on The Exchange. The amendments also create an additional group classification for price movements of equity securities.

The following questions and answers have been compiled to assist in understanding, and provide general guidance in the application of the Rule.

Frequently Asked Questions:

1. What do I need to know about the amendments to Rule 15.29: Pricing Methodology – What will change?

The minimum pricing increments and minimum quantity traded for equity securities will no longer be the one-size-fits-all of One Kobo (₦0.01k) which has been used in the market for all equity securities, but now re-standardized and stratified according to equity price groupings. The approved group structure is as follows:

Minimum Quantity:

- (a) a trade of at least Ten Thousand (10,000) units is required to move the price of equities trading at One Hundred Naira (₦100) or above (Group A),
- (b) a trade of at least Fifty Thousand (50,000) units is required to move the price of equities trading at ₦5 or above but lower than ₦100 (Group B),
- (c) a trade of at least One Hundred Thousand (100,000) units shall be required to move the price of equities trading at ₦0.01k or higher but below ₦5 (Group C).

Minimum price increments:

- (a) Group A = Ten kobo (~~₦~~0.10 kobo)
- (b) Group B = Five kobo (~~₦~~0.05 kobo)
- (c) Group C = One kobo (~~₦~~0.01 kobo)

2. How long will a security trade within a given price range before it is re-classified?

The trading period before reclassification for each price Group shall be as follows:

- (a) **Group A:** at least four (4) of the last six (6) months, or new equity security listings that are priced at One Hundred Naira (~~₦~~100.00) or above at the time of listing on The Exchange.
- (b) **Group B:** at least four (4) of the last six (6) months, or new equity security listings that are priced at Five Naira (~~₦~~5.00) or above but less than One Hundred Naira (~~₦~~100) at the time of listing on The Exchange.
- (c) **Group C:** at least four (4) of the last six (6) months, or new equity security listings that are priced at One Kobo (~~₦~~0.01) or above but below Five Naira (~~₦~~5.00) at the time of listing on The Exchange.

3. Will The Exchange implement all the amendments at the same time or in phases?

The implementation will not be done in phases. The amendments to the Pricing Methodology Rule will become effective on Monday, 29 January 2018.

4. With these amendments, what are Broker-Dealers and investors expected to do?

From the effective date of the amendments to the Pricing Methodology Rule, Broker-Dealers will be required to ensure that all open priced orders in equity securities comply with the new price increment requirements for each Group (i.e., the tick size: Group A: ~~₦~~0.10k, Group B: ~~₦~~0.05k, and Group C: ~~₦~~0.01k; depending on the group that the security falls under). Open orders, including Good Till Date orders outside permissible increments will be regarded as “Private” under Order Status by the trading engine. This implies that Broker-Dealers should either re-price their open Orders, including Good Till Date orders or withdraw the Order being priced in an impermissible increment before the effective date. In addition, subsequent orders from the effective date must be priced in approved minimum increments for equity securities accordingly. This is also applicable to the “limit” or “stop” orders.

Off-Market transactions and other privately negotiated deals are **not** exempted from the tick size requirements.

The obligation to comply with the amendments to the Pricing Methodology Rule lies with the Broker-Dealers. However, Broker-Dealers are expected to liaise with their Independent Software and Market Data Vendors, who may need to carry out tests to ensure that Broker/FIX clients trade within permissible increments and Order Management Systems are well integrated to carry out trades in line with these amendments.

5. Apart from being notified of these amendments, is there any other advice for investors?

Investors are advised to contact their Stockbrokers to ascertain whether any of their open orders will be impacted by these amendments.

6. If the last sale price of an equity security in Group B is at ₦5.00, can a Broker-Dealer bid or Offer at ₦5.01?

No. According to the Rule, the tick-size or minimum pricing increments for equity securities at ₦5 or above but below ₦100 is ₦0.05 kobo. Therefore, only orders priced at ₦5.05, ₦5.10, ₦5.15, and which follow this sequence are permissible, and orders priced at ₦5.01, ₦5.02, ₦5.07, ₦5.09 or any figure not divisible by 5 to a whole number are not permissible. Broker-Dealers are prohibited from entering non-permissible orders in the trading engine.

7. What minimum price increment, if any, will apply to Off-Market Negotiated Transactions?

Off-Market Negotiated Transactions will be accepted by X-Gen for execution at the permissible tick-size in line with the new Rule. For example, an off-market negotiated transaction price of ₦5.12 for an equity in Group B will not be accepted for matching by X-Gen and negotiated transaction price of ₦105.15 cannot be input in the X-Gen.

8. Would the X-Gen (trading engine) accept orders not quoted in permissible increments and round them up in queuing such orders?

No. Such orders are not acceptable under the Rule, and X-Gen (The Exchange's trading engine) will not accept such orders.

9. On the Effective Date of the Rule, what will be the Reference Price of an equity security that closed at ₦5.26 at the last trading session?

That equity security will be classified under Group B and the reference price at Pre-open stage will be rounded up to ₦5.30 on the date the amendments become effective. Also, for an equity in Group A that closed at ₦110.12 at the last trading session will have a Reference Price of ₦110.10 at Pre-Open on the effective date of the new Rule.

Equity Reference Prices will be rounded up/down by the trading engine to their nearest permissible ticks at the pre-open session, and price improving trades will be at permissible ticks and minimum quantities.

10. How will the published price of equities be determined?

The Reference Price of equities in Group A and B during the Pre-Open stage of the market will be rounded (up or down) to the nearest permissible tick by the X-Gen on the effective date of the amendments to this Rule.

The market impact of the rounding up or down to the nearest tick for equities at the Pre-open stage, have been analysed and considered insignificant to aggregate market statistics.

However, to change the Published Prices (Open, High, Low, and Close) at different stages of the market will be subject to the new price tick and minimum quantity size tests as follows:

Group	Price Movements (Minimum Quantity)	Tick Size (₦)
A	10,000	₦0.10
B	50,000	₦0.05
C	100,000	₦0.01

Traders will only be allowed to input their Orders at permissible ticks as the X-Gen will not accept Orders outside permissible ticks relating to equities in Group A and B.

Please see the example below. Assuming the following trades occurred on XYZ Plc equities on the NSE following the date the amendments to the Pricing Methodology Rule become effective:

Trade Sequence	Traded Price (₦)	Trade Quantity
1 st	101.10	15,000
2 nd	102.20	9,000
3 rd	103.30	11,000
4 th	104.40	10,000

Since the traded price is greater than ₦100, the above security belongs to Group A and its minimum price increment is Ten kobo (₦0.10 kobo) in line with the amended Rule. So in order to update the Open, High, Low, and Close (OHLC) values, a minimum trade quantity of 10,000 units should be traded on this security.

The 1st trade's quantity is more than 10,000 units, this will set the Open price for this security. If the 1st trade is cancelled, then in setting the Open price, the 2nd trade will not be considered

by the trading engine given that the traded quantity is less than 10,000. The Open price will be set by the 3rd trade with a traded quantity of more than 10,000 units

11. Will Issuers be allowed to set tick size or minimum quantity traded for their respective equity securities at listing?

No. The price of an equity security at the time of listing on The Exchange will determine the Group under which it will be classified.

12. Are the Market Makers' quotes exempted from this Rule?

No. Market Makers publishing two-sided quotes in a security are also expected to comply with the requirements of the amendments to the Rule.

13. How will subsequent reclassifications be known to the market?

Subsequent equity securities reclassifications by Group will be published by The Exchange from time to time, and placed on The Exchange's website.

14. Generally, how would this Rule impact the market?

The Rule is intended to improve liquidity, lower spreads, and ensure that all price improving (up/down) transactions are material, making the market more efficient for all participants.

NOTES:

1. The above information does not constitute professional investment or legal advice to anyone. Professional advice should be sought by stakeholders or potential investors where required.
2. Should you require further clarification, kindly contact the Market Surveillance and Investigations Department of The Exchange at Market_Surveillance@nse.com.ng.
3. The Rules of The Exchange are also available on its website (www.nse.com.ng), for additional reference.

Issued this 11th day of December, 2017