

THRESHOLD
ATTORNEYS & SOLICITORS

SEC'S INTEROPERABILITY AND FINANCIAL MARKET INFRASTRUCTURES LINK FRAMEWORK AMONG CENTRAL SECURITIES DEPOSITORS

Introduction

The remarkable growth of the Nigerian capital market in the last few years 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 without a settlement system. However, to enhance the efficiency of trading and settlement functions, as well as align the Nigerian capital market with international best practices, the Securities and Exchange Commission (SEC), on 22nd of June 2021 issued an interoperability and financial markets infrastructure link framework for Central Securities Depositories (CSDs).

The Framework is being issued in line with the mandate of SEC to regulate the capital market with the objective of ensuring the protection of investors, maintaining fair and efficient market, enhancing the efficient deployment of capital and cost effectiveness in the market, as well as reducing potential systemic risks in depository, trading, clearing and settlement activities.

This Newsletter examines the provisions of the Framework, while highlighting the risks management requirements for Interoperability arrangement among CSDs.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

HIGHLIGHTS OF THE FRAMEWORK

What Is Interoperability?

The Framework defines Interoperability as the technical and/or legal compatibility that enables a system or mechanism to be used in conjunction with other systems or mechanisms.

What is Interoperable Link?

The Interoperable Link is a set of contractual and operational arrangements between two or more FMIs that connect the FMIs directly or through an intermediary with the objective of providing facilities for delivery versus payment settlement between the interoperable CSDs' participants.

Interoperability Arrangement

As part of the interoperability arrangements, all CSDs are expected to 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 without subjecting each other to normal Participants (membership) rules. All CSDs are expected to allow for fair and open access to their services based on reasonable risk related access requirements, and have adequate reconciliation procedures to ensure that their respective records are accurate and current.

The framework stipulates that interoperable arrangement shall allow investors and capital market operators 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. In this regard, 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. However, consolidation of any CSD account(s) must be subject to relevant KYC due diligence requirements and on the basis of beneficial owner authorization.

On the other hand, the capital market operators 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. The investors and capital market operators 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.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

Risk Management Requirements

The framework stipulates that risk management requirements between CSDs shall be based on a mutually agreed arrangement and CSDs shall take into consideration the relevant risks issues. All CSDs are expected to identify, monitor, and manage all the risks associated with its interoperability with other CSDs as well as ensure the deployment of the needed resources to monitor operations associated with interoperability arrangement.

OTHER PROVISIONS

Interoperable Agreements

The Framework stipulates that an Interoperable agreement entered into between Securities Exchanges and CSDs must provide for the following;

- Rights and obligations of the Securities Exchanges and CSDs
- Confidentiality clause
- System requirements and capability
- Inter-CSD links and CSD-trading venue link
- Risk management framework.
- Clearing and settlement process and obligations
- Surveillance systems
- Sharing of client data and product information
- Retention period of data
- Intellectual property
- Default management process, and
- Dispute resolution process.

Status of implementation

The Framework stipules that all Securities Exchanges and CSDs are expected to communicate to SEC, the status of implementation of the provisions of the framework within three months of the date of issuance of the framework.

Conclusion

The mandate of SEC is to regulate the capital market with the objective of ensuring protection of investors, maintaining fair and efficient market as well as reducing potential systemic risks in trading, clearing and settlement ecosystem. In this regard, SEC has rolled out the interoperability and financial markets infrastructure link framework for Central Securities Depositories (CSDs) to enhance the efficiency of trading and settlement functions, as well as align the market with international best practices.

The Securities Exchanges and CSDs are required to 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, as well as bring to the attention of their members and capital market operators the provisions of the framework as well as publish same on their websites.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors

THRESHOLD
ATTORNEYS & SOLICITORS

KEY CONTACTS



Miracle Akusobi, Esq
Managing Partner
miracle.akusobi@threshold-attorneys.com



Chioma Ugwu
Partner
c.ugwu@threshold-attorneys.com



Kalat Jatau
Senior Associate
k.jatau@threshold-attorneys.com

About Us

THRESHOLD
ATTORNEYS & SOLICITORS

Threshold Attorneys & Solicitors is a fully integrated commercial law firm that delivers exceptional legal services in the diverse areas of Litigation and Dispute Resolution, Corporate and Commercial, Real Estate, Tax, Intellectual Property, Banking and Finance, Energy and Natural Resources, Aviation, Maritime, Telecommunication, Media, and Technology, Labour and Immigration, Debt Recovery, Joint Venture and Foreign Investments.

The firm's strong reputation is founded on its unique ability to provide innovative, competent, cost-effective and well-timed solutions to complex legal issues in a manner tailored to the client's individual needs. We adopt a visionary approach to client's service which enables us to anticipate industry challenges.

We are focused on delivering excellent bespoke service to our Clients and towards achieving this objective, we configure teams according to each Client's needs in a system that ensures that personnel with specialist knowledge are always assigned to their areas of specialization.

info@threshold-attorneys.com
www.threshold-attorneys.com
Threshold Attorneys & Solicitors