TRADING, CLEARING AND SETTLEMENT SYSTEMS IN THE CAPITAL MARKET

BY

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Trading, Clearing and Settlement Systems in the Capital Market

Capital market could be defined as a Financial market that works as a conduit for demand and supply of (primarily) long-term debt and equity capital. It channels the money provided by savers and depository institutions (banks, credit unions, insurance companies, etc.) to borrowers and investees through a variety of financial instruments (bonds, notes, stocks) called securities. A capital market is not a compact unit, but a highly decentralized system made up of three major parts:

(1) stock market,

(2) bond market, and

(3) money market.

Some entities within the Capital Market:

- Securities & Exchange Commission – The Regulator
- Stock Exchange – Self Regulatory Organisation (SRO)
- Central Securities Depository (CSD)
- Other operators such as: Brokers; Settlement Banks; Custodians; Registrars; Lawyers etc.

Securities & Exchange Commission:

The mission of any Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation

The SEC has broad authority over the securities industry. This includes the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as the nation's self regulatory organizations (SROs).

The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds. Here the SEC is concerned primarily with promoting the disclosure of important market-related information, maintaining fair dealing, and protecting against fraud

Stock Exchange:

- Established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities
- Provides a market for the trading of securities to individuals and organizations seeking to invest their saving or excess funds through the purchase of securities
- Provides a physical location for buying and selling securities that have been listed for trading on that exchange
- Establishes rules for fair trading practices and regulates the trading activities of its members according to those rules
- The exchange itself does not buy or sell the securities, nor does it set prices for them

Central Securities Depository – basic functions:

- maintaining register of securities;
- issuance of international securities identification number (ISIN) for all issues of securities;
- clearance and settlement of securities on the principle "Delivery versus Payment";
- provision of additional services to issuer of securities.

Stock Trading, Stock Trades, Stock Investing

Historically, stock markets were physical locations where buyers and sellers met and negotiated. With the improvement in communications technology in the late 20th century, the need for a physical location became less important, as traders could transact from remote locations.

Stock trading is the process of buying or selling of shares on a stock exchange, where investors are represented by stock brokers. A company that floats its stocks is called a public company and is listed on a stock exchange. Stock trading can be done either physically or virtually (online).

Stock Trading: Approaches

There are two main approaches to stock trading:

Active approach: This is the more common of the two approaches. The decision to buy stocks involves analyzing the company, reviewing the historical share price trends and understanding the current forecasts. Active investors are guided by the growth and intrinsic value of the stocks. This approach is mostly applied by the investment managers who manage mutual funds, pension funds and separately managed individual accounts.

Passive approach: This approach is opted for by investors who prefer low-risk, high-yielding stocks and invest money in them mainly for their retirement accounts. This approach assumes the efficiency of markets in the longer term. It is, however, not synonymous with the strategy of ‘buy-and-hold.’ Rather, it implies buying at low prices and selling when the stocks have reached a high price level.
Benefits of Stock Trading

Here are some benefits of stock trading:

- Buying and selling stocks offers better returns than other financial instruments.
- Online stock trading can be used as a form of home-based income generation for housewives, the elderly and the physically challenged.
- Stock trading can be done on a full time or part time basis.
- Stock trading offers scope for diversification across companies, geographies and sectors.

Some Trading methods:

<A> Call-over/Open outcry

Open outcry is the name of a method of communication between professionals on a Stock exchange or futures exchange which involves shouting and the use of hand signals to transfer information primarily about buy and sell orders. The part of the trading floor where this takes place is called a pit.

Examples of markets which used this system are the New York Mercantile Exchange, the Chicago Mercantile Exchange, the Chicago Board of Trade, the Chicago Board Options Exchange. The London Metal Exchange still makes use of open outcry.

The open outcry system is being replaced by electronic trading systems (such as CATS and Globex). The supporters of electronic trading claim that they are faster, cheaper, more efficient for users, and less prone to manipulation by market makers and broker/dealers. However, many traders advocate for the open outcry system on the basis that the physical contact allows traders to speculate as to a buyer/seller's motives or intentions and adjust their positions accordingly.

A "trading floor" is a trading venue. This expression often refers to a place where traders or stock brokers meet in order to buy and sell equities, also called a pit. Sometimes, the expression "trading floor" is also used to refer to the "trading room" or "dealing room", i.e. the office space where market activities are concentrated in investment banks or brokerage houses.

<B> Electronic trading:

It is sometimes called Etrading. It is a method of trading securities (such as stocks and bonds), foreign currency, and exchange traded derivatives electronically. It uses information technology to bring
together buyers and sellers through electronic media to create a virtual market place. Etrading is widely believed to be more reliable than older methods of trade processing.

Conversion to electronic trading:

Nasdaq became the world’s first electronic stock market in 1971

The London Stock Exchange moved to electronic trading in 1986

The Nigerian Stock Exchange moved to electronic trading in 1999

Impact of Etrading:

The increase of eTrading has had some important implications:

- Reduced cost of transactions - By automating as much of the process as possible (often referred to as "straight-through processing" or STP), costs are brought down. The goal is to reduce the incremental cost of trades as close to zero as possible, so that increased trading volumes don't lead to significantly increased costs. This has translated to lower costs for investors.
- Greater liquidity - electronic systems make it easier to allow different companies to trade with one another, no matter where they are located. This leads to greater liquidity (i.e. there are more buyers and sellers) which increases the efficiency of the markets.
- Greater competition - While etrading hasn't necessarily lowered the cost of entry to the financial services industry, it has removed barriers within the industry and had a globalisation-style competition effect. For example, a trader can trade futures on Eurex, Globex or LIFFE at the click of a button - he or she doesn't need to go through a broker or pass orders to a trader on the exchange floor.
- Increased transparency - Etrading has meant that the markets are less opaque. It's easier to find out the price of securities when that information is flowing around the world electronically.
- Tighter spreads - The "spread" on an instrument is the difference between the best buying and selling prices being quoted; it represents the profit being made by the market makers. The increased liquidity, competition and transparency means that spreads have tightened.

Some definitions:
Clearing: the process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement.

Settlement: the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller.

Central Securities Depository (CSD): a facility (or an institution) for holding securities, which enables securities transactions to be processed by book entry. Physical securities may be immobilized by the depository or securities may be dematerialized (ie so that they exist only as electronic records). In addition to safekeeping, a central securities depository may incorporate comparison, clearing and settlement functions.

**Nigerian experience**

**Introduction**

- Nigeria has a formal and active capital market, as evidenced by the existence of Securities and Exchange Commission (The apex regulatory body for the capital market) and other self regulatory bodies as The Nigerian Stock Exchange and Central Securities Clearing System (CSCS). We equally have the stockbroking firms, issuing houses, registrars, investors' advisers, custodians etc.

**Automation of The Nigerian Capital Market**

- Nothing has a greater impact on the future of organizations than the ability to harness technology. As a result of increased application of technology to the market processes, there is today a shift from trading floors to screen-based systems. Electronic trading platforms are increasingly emerging in direct competition with traditional exchanges, among other associated developments.

- Prior to automation, the Nigerian capital market contended with a cumbersome manual process that threatened to erode investor confidence
in the market. Transaction cycle was long and inconclusive in some cases; there were incidences of overtrading in stock and cash; and the price discovery function of the secondary market was constrained by the prevailing manual Call-over Trading System.

However, while The Exchange worked on approaches to resolving these problems with the assistance of the International Finance Corporation (IFC), a member of the World Bank Group, which conducted a study on the automation of our market processes, the Federal Government in 1993 deregulated the market and subsequently internationalized the market in 1995. Deregulation and internationalization gave fresh impetus to the automation of the capital market in Nigeria. These developments put our market in the mainstream of the global capital markets.

The gains of internationalization will always depend on the strength of domestic services capacity, efficiency and competitiveness. Basically, internationalization, which is the opening up of the market to foreigners, as operators and investors, made it an urgent imperative for the market to benchmark its operations against international standards, if the market must also serve as channel for the inflow of foreign capital into Nigeria. Attaining the objective or attracting foreign investment capital is important because of the need to supplement low domestic savings with foreign capital as a condition for economic recovery and sustainable development.

In the circumstances, automation became a sine qua non for the operations of the Nigerian Capital Market. For one, international fund managers often judge the attractiveness of a market by its infrastructure. Apart from the trading system, clearing, settlement, depository and custodial services are yardsticks often employed.

Many Emerging Markets can seldom guarantee fair trading because they have yet to automate their processes. In many of these markets, price differentials and arbitrage exist with resultant distortion of the markets. The lack of automated systems also militates against efficient and speedy clearing and settlement.
Central Securities Clearing System Ltd Operations

In 1989, the Federation of International Stock Exchanges (FIBV) endorsed the recommendation of the Group of Thirty (G30), a private sector organization, for improved efficiency and effectiveness of the Clearing and Settlement System of capital markets.

G30 Recommendations

1. All comparisons of trades between direct market participants (i.e. brokers, broker/dealers and other exchange members) should be accomplished by T+0. Matched trade details should be linked to the settlement system.

2. Indirect market participants (such as institutional investors and other indirect trading counterparties) should achieve positive affirmation of trade details by T+1.

3. Each country should have in place an effective and fully developed central securities depository organized and managed to encourage the broadest possible direct and indirect industry participation. The range of depository eligible instruments should be as wide as possible. Immobilization or dematerialization of financial instruments should be achieved to the utmost extent possible.

   If several CSDs exist in the same market, they should operate under compatible rules and practices, with the aim of reducing settlement risk and enabling efficient use of funds and available cross-collateral.

4. Each market is encouraged to reduce settlement risk by introducing either Real Time Gross Settlement (RTGS) or a trade netting system that fully meets the "Lamfalussy recommendations"

5. Delivery versus payment (DVP) should be employed as the method of settling all securities transactions. DVP is defined as follows:

   Simultaneous, final, irrevocable and immediately available exchange of securities and cash on a continuous basis throughout the day.

6. Payments associated with the settlement of securities transactions and the servicing of securities portfolios should be made consistent across all instruments and markets by adopting the “same day” funds convention. Usage of Central Bank fund is recommended

7. A rolling settlement system should be adopted by all markets. Final settlement for all trades should occur no later than T+3.
8. Securities lending and borrowing should be encouraged as a method of expediting the settlement of securities transactions. Existing regulatory and taxation barriers that inhibit the practice of lending and borrowing securities should be removed.

9. Each country should adopt the standard for securities messages developed by the International Organisation of Standardisation (ISO Standard 7775). In particular, countries should adopt the ISIN numbering system for securities issues as defined in the ISO Standard 6166.

Incorporation of Central Securities Clearing System (CSCS) Ltd

- Central Securities Clearing System (CSCS) Ltd. was incorporated on July 29, 1992 by The NSE and became operational in April 1997
- It was meant to speed up the delivery and settlement systems of the Nigerian Capital market in line with the G30 recommendations.
- The concept of Central Securities Clearing System is to provide an integrated and technologically driven central depository, clearing and settlement facilities for all stock market transactions. All securities listed on The Nigerian Stock Exchange (NSE) must have their certificates deposited in CSCS before transactions on them on the floors of The Nigerian Stock Exchange (NSE).
- The transaction are processed and concluded within four working (4) days (i.e. T+3) in electronic book entry form.

Functions:

- Central depository for share certificates of companies quoted on The Nigerian Stock Exchange (NSE).
- Sub-registry for all quoted securities (in conjunction with registrars of quoted companies)
- Issuer of central securities identification numbers to stockbrokers and investors.
- Clearing and settlement of transactions

CSCS governing provisions (Legal provisions)

CSCS is being governed by several laws, rules and regulations among which are:

- The Investments and Securities Act (ISA) of 2007 as amended
- The Nigerian Stock Exchange rules and regulation
- Rules made pursuant to the Securities & Exchange Commision Act of 1980
Ownership structure

The CSCS was incorporated as a subsidiary of The Nigerian Stock Exchange (NSE) with an initial holding of 100% which was subsequently reduced to 30% in order to allow a broader Corporate ownership by various stakeholders. Other shareholders include:

- Stockbroking Firms 5.5%,
- Settlement Banks 51%,
- Issuers 3%,
- Issuing Houses 2.5%,
- Registrars 4%,
- Custodians and Institutional investors 4%.

Stock Market Delivery And Settlement Process Prior To CSCS

- In most cases, it took between 3 months - 12 months to receive Share Certificates
- Cancellation and frequent issuance and re-issuance of Certificates when sales occur
- Constant signature verification
- Capital Gains not exploited
- Some Dealing Members sold what they did not have.
- Manipulations were high due to long transaction cycle.
- There was minimal transparency and general lack of trust.
- Numerous complaints on failed transactions.
- Loss of Certificates
- Risk was very high - undue delay, manually operated, manipulations due to long transaction cycle, minimal transparency, therefore generally lack of trust in the system.
CSCS Flow of Activities

CSD Participants
- Direct
- Indirect

Securities Market Practice Group (SMPG)
- This is very essential for the success of a capital market
The Inter-relationship between CSCS and other Capital Market Operators:

(a) The Registrars

Right from inception, it was agreed that the registrars were to maintain the shareholders' investment records. Consequently, they are provided with such relevant data/information by CSCS as follows:

- Registrars receive CSCS update on transactions on the floor having sellers and buyers for application.
- Registrars are expected to go through the advice and report any anomaly to CSCS for prompt action.
- Registrars keep the update advice and are expected to debit investors account on verified items only.
- Registrars are able to compute and provide bonus and dividends to shareholders based on the update from CSCS.

(b) The Stockbroking Firms

- The stockbroking firms are registered by Securities and Exchange Commission (SEC) to deal on Securities and licensed by The Nigerian Stock Exchange (NSE) to deal on any of her trading floors.
- The stockbroking firms maintain personal data of their clients with which they can identify and acknowledge them before transacting on their behalf. Clients accounts opening request are presented to CSCS on behalf of their clients.
- The stockbroking firm is mandated to buy, transfer or sell stocks by the investors/shareholders and the transaction are effected accordingly on the trading floor on behalf of their clients.
- Each stockbroking firm is expected to maintain a trading account with any of the appointed stock market settlement banks.

(c) The settlement banks

- CSCS transmits/sends daily financial settlement schedule to banks
- Cash settlement occurs on T+3
- The banks are expected to fund their Central Bank account by 9.00am
Trade Guarantee Fund — establishment & operation

The Trade Guarantee Fund (TGF) was established by the Nigerian Stock Exchange in conjunction with the Central Securities Clearing System Limited. It is to further ensure and guarantee cash settlement of stock exchange transactions. Under the system, Nominee account was opened in each of the Stock Settlement Banks. Currently, each Dealing Member Firm makes a one-time contribution of =N=100,000.00 (one hundred thousand naira only) to the Fund. The Fund grows by way of bank interest and penalty charges. Henceforth, there will be no cancellation of trades.

Facts for the settlement bank and broker participants:

Day T. By 4 p.m. of Day T (Transaction Day), CSCS sends advice of Day T

Stockbroking firms net financial obligations to their respective settlement banks. This is an information to alert the banks about their client’s commitment on Day T+3. Not to be used for any update by the banks.

Day T+2 By 12.00 noon of Day T+2, Settlement Banks to alert NSE and CSCS about the possibility of any broker’s inability to meet their financial obligation on Day T+3. The alert can be by fax, e-mail, letter or telephone.

By 4 p.m. of Day T+2, CSCS sends advice of Day T transactions, stockbroking firm’s net financial obligations to their respective settlement banks for processing on T+3.

Day T+3 By 9.00 a.m. stockbroking firms/custodians or any high net worth individual must have funded their accounts for Day T transaction. Final notice of broker’s cash default shall be made to NSE and CSCS by 12.00 noon.

Net settlement figures for each settlement bank are scheduled to Nigerian InterBank Settlement System (NIBSS) on Day T+3 by 10.00 am. NSE and CSCS are alerted if any bank(s) could not meet the obligation as contained in the schedule sent to NIBSS. By 2.00pm when all issues might have been resolved, NIBSS applies the CSCS schedule against the banks CBN account.

Settlement banks equally debit and/or credit on Day T+3. Stock settlement effected on Day T+3 by CSCS. In effect, Delivery versus Payment (DVP) assured.
In Case of Default by Dealing Member Firm

Day T+3  Settlement bank(s) to settle the default. The affected Settlement banks to advise CSCS and NSE of defaults by 12.00 p.m. on Day T+3.

All stock purchases of the defaulting stockbroking firm on Day T will be allowed to settle and be frozen on Day T+3 by CSCS.

NSE/CSCS may cause the default amount to be debited to the Trade Guarantee Fund by a letter to the affected bank(s) and the custodian of the Fund. Settlement banks should NOTE that TGF has a limit.

Day T+4  Default accounts must be funded by 9.00 a.m. on Day T+4. The stockbroking firm is to ensure that its settlement bank confirms payment to CSCS by 10.00 a.m. on Day T+4.

Recovery  The stocks to be moved from frozen account to the accounts of the appointed stockbroking firms.

♦ At 11.00 a.m. The NSE/CSCS appointed stockbroking firms to trade the stocks.

♦ CSCS to instruct the settlement banks on proceeds from sale of stocks to replenish the Guarantee Fund as the proceeds come in.

♦ Where there is a short-fall between proceeds from sale of stocks and amount debited to Guarantee Fund, the defaulting stockbroking firm to pay the short-fall before returning to the market.

♦ In case of surplus from sales, the surplus be paid to the TGF, NSE and CSCS.

Penalty In Case of Default

♦ Suspension from CSCS clearing and settlement system and trading on the floors of The Nigerian Stock Exchange.

♦ Penalty of =N=100,000.00 or 1% of net over-trade whichever is higher should be paid before a broker is allowed back to the market.

♦ 33 1/3 % each to The NSE, CSCS and the Guarantee Fund.

♦ Freezing of member’s stock inventory in CSCS.

♦ Payment of amount over-traded to be credited to Guarantee Fund by 9.00 a.m. on Day T+4
Management of the Guarantee Fund

1. Trade Guarantee Fund account to be established in each settlement bank.

2. To be managed by the banks but to obey instructions from CSCS.

3. Interest to be paid to the Guarantee Fund accounts by the settlement banks.

4. Weekly report by the settlement banks on the Guarantee Fund Accounts to The NSE/CSCS.

5. Defaulting stockbroking firms to make payment to the settlement banks where account is maintained. Evidence of such payment to be made available to The NSE/CSCS by defaulting firm and confirmation of payment by the settlement bank.

International relations

- **CSCS Limited** is an eligible Central Securities Depository under Rule 17f-7 of United States Investment Act.
- The **CSCS** has always been actively involved in all CSD world conferences.
- The **CSCS** is a strong member of AMEDA (African and Middle East Depository Association).
- The Association of Global Custodian (AGC) has always received the support and co-operation of the **CSCS**. The information gathering project of the AGC has always received prompt attention of the **CSCS**.
- CSCS has thrown its doors open for scrutiny by institutions/agencies such as International Monetary Fund, United Nations, Goldman Sachs UK, HSBC bank Plc UK, The bank of New York – UK Branch, JP Morgan Chase N.A. Uk, State Street Bank & Trust Co. Boston USA, ABN Ambro UK, Merrill Lynch International UK, Citigroup UK, Renaissance Capital Russia & UK.
- The **CSCS** belongs to the Association of National Numbering Agencies (ANNA) and currently saddled with assignment of symbol/security codes to listed companies.
International rating

The **CSCS** infrastructure was rated A- by Thomas Murray, a Capital Market Infrastructure Risk Ratings agency, which provides global information that meets international standards on Depository, Clearing and Settlement services.

Regulated CSD

The CSCS is registered and regulated by SEC. Some of the oversight functions on CSCS include:

- Securities and Exchange Commission (SEC) obtains monthly transaction reports from **CSCS**.
- As part of her regulatory oversight function, SEC equally conducts operational investigation/audit of CSCS.
- External independent auditors perform both financial and operational audits of **CSCS** operations annually.
- The Internal auditors perform the in-house operational audits daily.

Products and Services offered by CSCS Ltd:

**a) Special Accounts opening by individuals and corporate bodies:**

CSCS Ltd has taken measures to allay any apprehension investors may have on the security of their stocks under the CSCS System. In line with this, provision has been made for individual and corporate investors to be members of the CSCS through registration. Under this system, investors now have special stock accounts separated from those under the stockbroking firms through which they buy or sell shares in order to have full control and management of their shareholdings in CSCS System.
(b) Internet Services

- Clients can obtain stock market news online
- Monitor their accounts including movements in and out of the accounts and raise alarm on the contrary.
- Obtain securities historical data in terms of price and corporate action history
- Stock investment valuation

(c) Use of shares in CSCS depository as collateral to obtain loan facilities

Notes For Guidance:

1. The lender should demand from the borrower, a current statement of stock position issued to him/her/it by CSCS Ltd.

2. The lender can confirm from CSCS, the statement of shareholding issued to a shareholder/prospective borrower by CSCS (status report) on payment of a fee of $N=200.00. The Lender must obtain from the borrower/shareholder a letter of authority to the effect that the borrower/shareholder has mandated the lender to collect the stock position on his/her/its behalf.

3. (i) A memorandum jointly, signed by the parties requesting CSCS to place a lien on specific quantity of the stock(s), should be forwarded to CSCS Ltd. Also, an undated letter signed by the Borrower, authorizing the Lender to sell the stocks in the event of default at the expiration of the loan due date, must be given to the Lender upon which CSCS would act when the Lender so instructs.

(ii) It is in the interest of the lender not to disburse funds until a letter advising lien placement has been received from CSCS Ltd.

(iii) It is essential that the Joint Memorandum be registered at the Stamp Duties Office or sworn to before a Commissioner for Oaths in any Court of Law. Note that the Joint Memorandum must have been completed on the front and reverse sides as directed thereon and explicit therefrom, before same is stamped or sworn to.

(iv) The Lender, the Borrower and the Stockbroking firm(s) may be required to confirm and/or consent to the lien agreement. The stockbroking firm(s) in particular are required to expressly
ascertain/confirm in writing that the Shareholder is the genuine owner of the stated stock(s).

(v) The stock broking firm(s) must write the letter (referred to in paragraph (iv) above and addressed to CSCS of which same is expected to accompany the Joint Memorandum when forwarded to CSCS Ltd.

(vi) Any insertion/alteration on the Joint Memorandum shall be a ground for rejection of the application

(vii) The draw down date and duration of the lien agreement must be specifically stated (filled out) in the Joint Memorandum.

4. Upon the receipt of the executed Joint Memorandum referred to in (3) above and after the lien processing at CSCS have been completed, the shareholding of the shareholder would be moved into a CSCS Reserved Lien Account with the interest of the Lender Noted. This will be communicated to the parties, thereafter.

5. The Lender (and no other party) should advise CSCS to remove the lien placed on stocks en bloc when the Borrower has discharged his/her/its obligation under the contract. The stock(s), which should be listed on the letter of instructions from the Lender, is/are moved back to the original stockbroking firm(s) from where the stock(s) was taken.

6. When the Borrower defaults and/or fails to discharge his/her/its obligation under the contract, the Lender at the expiration of the loan due-date shall:

(i) Inform CSCS of the default by the Borrower and advise CSCS to remove the lien to enable sale to be effected.
(ii) With a copy of the undated letter written by the Borrower to the Lender further give instructions/directives to CSCS for the purpose of the release and possible sale through a mandated or named stockbroking firm, which is a member of The Nigerian Stock Exchange (NSE).
(iii) CSCS, if satisfied that the procedure has been complied with, will be obliged to remove the lien on the stock(s) upon
such information/instructions from the Lender after the expiration of the loan due-date without recourse to the Borrower, moreso when evidence of Notice of Default from Lender to Borrower is received/sighted by CSCS Ltd.

Note that lien is placed on shares whose owners are the direct Borrowers and not third party to the contract, which fact the Lender must attest to, expressly or by implication.

(d) Inter-member transfer

- An investor who is not satisfied with the services of his/her stockbroking firm is afforded a right to make another choice.
- Inter-member transfer form has been designed to facilitate this process

Account opening/registration

- By market practice, all shareholders shall maintain account with CSCS for all secondary stock market transactions
- Shareholders account opening requests are submitted to CSCS by shareholders respective brokers
- Account opening process is now automated to reduce secondary errors

Share certificate verification and lodgement

- Confirmation/verification of title of each share certificate lodgement is done by the issuer’s agent (known as the Registrar) before being deposited in the Depository.
- Each lodgement is reflected in the beneficial owner’s stock account maintained at the CSCS under the Dealing member’s (Stockbroking firm’s) portfolio.
- The share lodgement process is automated (e-lodgement).
Risk Management & Business Continuity

CSCS has put in place risk control/business continuity measures to enhance investors confidence in the Nigerian Stock market. Such measures include:

- Tight coupling with trading engine
- Trade guarantee fund
- Trade alert and Trade alert plus
- Final, irrevocable settlement cycle (T + 3)
- No short selling
- No trade cancellation
- Authorised access to the Website [www.cscsnigerialtd.com](http://www.cscsnigerialtd.com)
- Upto date and comprehensive audit trail availability.
- The general staff are well controlled and are continually under the surveillance of CCTV cameras mounted in the offices.
- Cash settlement is done with the CBN fund/money. NIBSS (Nigerian Inter-Bank Settlement System), a subsidiary of CBN, applies the cash settlement schedule forwarded to it by CSCS on each settlement day, to the respective CBN accounts of the settlement bank participants

Backup and disaster Recovery plans covering the following:-

- Office space and equipment back-up
- Redundant server
- On-line & Real time back-up facilities
- Daily, weekly & monthly back-up processes
- Recovery within 36 hours

- There are five sources of power to the CSCS infrastructure. The sources of power are equally supported by uninterruptible power system to ensure smooth change of power source when the need arises.
Market performance Post CSCS/ATS are as hereunder tabulated from inception to June 2008.

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<th>YEAR</th>
<th>VOLUME</th>
<th>VALUE =$\text{N}$=</th>
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The Benefits of Automated trading & CSD

- Increased opportunity for price discovery
- Enhanced transparency and efficiency of market
- Fast dissemination of information to market participants
- Facility for trading in a variety of securities, including equity and bonds
- Obviated the risks associated with loss of share certificate
- Facilitates settlement of transactions
- Reduced paper work and operational costs for stockbroking firms with positive implications for operating profit
- Reduced cost of managing register of shareholders by quoted company.
**Future Outlook**

- The current market plan towards complete stock market dematerialization is being anticipated. Meanwhile, CSCS already has the capacity and is positioned to take on the full role of a Depository in this regard.

- CSCS also has the technical capacity and ability to perform Cross – border Clearing and Settlement.

- The CSCS software package (EQUATOR) comes pre-configured with Securities Lending and Borrowing (SLB) ability. Introduction of SLB as a product to the Securities Market is currently being planned.

- CSCS is already positioned towards adopting SWIFT Network technology for communication with her participants.