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NEWSLETTER



**OVERVIEW OF THE SEC REGULATIONS
ON MICRO-INVESTMENT TECH AND
DIGITAL SUB-BROKER PLATFORMS**



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Introduction

The increasing popularity and adoption of digital micro-investment Fintech platforms like Chaka, Bamboo, Trove, etc. had been under threat of being proscribed but the recent regulatory amendments by the Securities and Exchange Commission (SEC) has given them a new lease of life.

On April 8 2021, the Securities and Exchange Commission (SEC) issued a statement titled: *"Proliferation of Unregistered Online Investment and Trading Platforms Facilitating Access to Trading in Securities Listed in Foreign Markets"* by which it effectively proscribed the activities of micro-investment fintech companies like Risevest, Bamboo, Trove, etc. which facilitate access to trading in foreign securities to Nigerian investors for being

outside of its regulatory purview and in violation of the applicable laws and regulations in Nigeria.

In the same statement, the SEC warned the investing public to be wary of the proliferation of these platforms and enjoined the capital market operators (CMOs) purportedly operating in partnership with these platforms to desist henceforth. This came on the heels of the Commission earlier obtaining from the Investment and Securities Tribunal (IST) interim orders suspending Chaka from carrying out investment activities outside the regulatory purview of the Commission and without requisite registration.

However, on 22 April 2021, the SEC, in a commendable turn of events, amended its Consolidated Rules and Regulation ("the Amendments") to make provisions for the incorporation of the activities of these digital micro-investment tech platforms, especially with regards to the definition of sub-broker, the keeping of the records of transactions with clients, and the introduction of a risk management regime for these platforms.

Classification – Sub-broker/ Sub-broker Serving multiple brokers through a Digital Platform” (“SSMB”)

To incorporate the trading activities of the digital platforms employed by these micro-investment tech companies, the Amendments redefine the term “sub-broker”. Under it, a “sub-broker” means any person or entity not being a dealing member of an Exchange who acts on behalf of a sponsoring Broker/Dealer as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such sponsoring Broker/Dealer.¹ More particularly, digital micro-investment tech platforms such as Chaka, Bamboo, etc. are classified as “sub-broker who is serving multiple brokers through a Digital Platform” (“SSMB”), that is, a sub-broker who utilizes a digital platform to serve clients and interact with the sponsoring broker or brokers. This is in recognition of their *modus operandi* which includes collaborating/partnering with broker-dealers, etc. registered in Nigeria, the United States (USA), and other foreign countries where they provide service to Nigerians with the

platform to invest in local and foreign markets/securities.



Registration

To operate a digital micro-investment tech/sub-broker platform in Nigeria in the way Chaka, Bamboo, trove, etc. do, prospective operators are required to submit an application to the SEC for registration as a Sub-Broker/Sub-Broker Serving Multiple Brokers through a Digital Platform (SSMB) accompanied by prescribed requirements such as evidence of payment of relevant registration fees and Sponsored Individual Fee, and applicable duly executed SEC Forms.

The minimum paid-up capital for a Sub-Broker/Sub-Brokers Serving Multiple Brokers through a Digital Platform is NGN10,000,000 (Ten Million Naira).² Such Sub-Broker/SSMB

must also have a Current Fidelity Insurance Bond covering at least 20% of the minimum paid-up capital as stipulated by the Commission's Rules and Regulations.

Applicant sub-broker/SSMB operators must have a minimum of three sponsored individuals including the Managing Director of the Company and must provide the specified necessary information on these sponsored individuals. Applicant operators must also submit to the SEC the company's profile, copy of the agreement with the sponsoring broker/dealer firm, business plan, etc. and the company's corporate documents including duly certified copies of the Certificate of Incorporation, Memorandum and Articles of Association, etc.³

An application for registration will only be considered as having been filed when all document(s)/information stated above have been provided to the SEC. Applicants are also expected to exhibit a fair knowledge of the Rules and Regulations of the Commission, the Investments & Securities Act 2007 (ISA) and the Capital Market as a prerequisite for registration.

There are also some additional registration requirements particular to SSMBs. These include a Principal Agreement with multiple brokers; description of the Technology on which the platform's infrastructure is built (including its structure, capability/limitation, security, and backup & recovery process); requisite certification that the infrastructure is sufficient to perform the required function; evidence of documented policies and procedures for managing technology risks; adequate Know-Your-Customer (KYC) requirements and processes; prospective terms and conditions of the use of the platform by clients and investors, etc.



Record of Clients' Transactions

The Amendments also introduces new clauses to the Rule requiring sub-brokers to keep a record of transactions with clients. Under

the amendments, a sub-broker is required to maintain proper and adequate records of transactions for and on behalf of each client, which records shall include among others, proof of execution of trade on behalf of a client, money transfer receipt confirmation, all communications with the client through the dedicated communication channel, all transactions carried out on the platform and all parties related to every transaction carried out on its platform.



Risk Management

To protect investors/users of these platforms from preventable loss, the Amendments require the platforms to, amongst other things, have adequate cyber-security protection against cyber-attacks, comply with the SEC's Technology Risk Guidelines, establish an Anti-Money

Laundering/Combating Financing of Terrorism (AML/CFT) mechanism in compliance with the relevant AML/CFT regulation for Capital Market Operators.

Conclusion

As digital micro-investment tech platforms like Chaka, Bamboo, Trove, etc. continue to lower barriers for entry for Africans looking to access financial markets—both locally and internationally—and facilitate alternative investment options and financial inclusion for average Nigerian investors, it is of little surprise that they have been embraced soundly by Nigeria's teeming young but tech-savvy population. It is presently estimated that these platforms have, since inception, introduced over 150,000 new capital market participants in Nigeria – primarily millennials – and are contributing trading volume over Ten Billion Naira (NGN10,000,000,000) monthly.

Considering the risks of non-regulation, it is quite encouraging that the SEC has responded swiftly and in an innovation-friendly manner to the rise of these platforms in Nigeria. This is a

demonstration that the SEC is well positioned and prepared to regulate the capital markets to ensure the protection of investors, maintain fairness, efficiency and transparency, and reduce systemic risk.

There is no doubt that proper innovation-centric regulation like this will go on to spur even more innovation in the country, encourage new business models, promote alternative financial intermediation channels, and facilitate the delivery of a wider range of financial products and services to the market in a more efficient way.

REFERENCES

1. Major Amendments To The Rules And Regulations Of The Commission available at <https://sec.gov.ng/regulation/rules-codes/> accessed on 20/04/2021.
2. Ibid.
3. Ibid.

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