



Derivatives Trading Membership Requirements

FMDQ Securities Exchange Limited

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DEFINITIONS

Term	Defintion
“Applicable Laws”	means any law, statute, code, ordinance, decree, rule, or regulation of relevant regulatory authorities as may be revised, updated, and/or amended from time to time;
“Authorised Representatives”	means employees authorised by Trading Members to perform activities on their behalf on the Exchange. They include but are not limited to treasurers, dealers, compliance officers, treasury operations staff, treasury sales staff, risk officers and control & audit staff;
“Bank”	as defined in the Banks and Other Financial Institutions Act (BOFIA) 1991;
“CBN”	means the Central Bank of Nigeria;
“Clearing Agreement”	means a written agreement between a Clearing Member and a Trading Member in which the Trading Member guarantees to the Clearing Member the performance of the obligations arising out of the positions of the Trading Member and Clients of the Trading Member;
“Client”	means any person, entity or agent thereof to which a Trading Member provides trading services;
“Dealing Member”	means an entity registered by the Securities and Exchange Commission and a currently registered with FMDQ Securities Exchange to execute trades for its own accounts or on behalf of its clients;
“Derivative”	means any financial instrument or contract that creates a right and/or obligation and whose value depends on or is derived from the price/value of one or more underlying product, rate, index or measure of economic value or event;
“Derivatives Market Rules” or the “Rules”	means Rules of the FMDQ Exchange Derivatives Market in relation to all activities conducted in the Derivatives Market, and as amended from time to time;
“Derivatives Clearing Member” or “Clearing Member”	means a member of FMDQ Clear who is authorised to clear and settle trades through FMDQ Clear Limited in the FMDQ Exchange Derivatives Market;
“Derivatives Trading Member” or “Trading Member”	means a member of FMDQ Exchange who is authorised to execute trades in Derivative securities for its own account or on behalf of its Clients in the FMDQ Exchange Derivatives Market but is not authorised to clear trades directly with a central counterparty unless it is also a Derivatives Clearing Member of FMDQ Clear Limited;
“FMDQ Clear” or the “Clearing House”	means FMDQ Clear Limited;
“FMDQ Exchange” or the “Exchange”	means FMDQ Securities Exchange Limited;
“Membership Agreement”	means an executed agreement between the Exchange and an existing or prospective Derivatives Trading Member setting out the contractual obligations of the Trading Member for participation in the FMDQ Derivatives Market as a Trading Member;
“Non-Bank Financial Institution” or “NBFI”	means financial institutions other than banks such as Securities Firms, Issuing Houses, Investment and Securities Firms, Asset Management Firms, Insurance Companies, etc.;
“SEC” or “Commission”	means the Securities and Exchange Commission of Nigeria;
“SEC Rules”	means the SEC Consolidated Rules and Regulations 2013 (as amended);
“Trade”	means to buy or to sell Derivatives.

1. DERIVATIVES TRADING MEMBERSHIP

FMDQ Derivatives Trading Members are members authorised by the Exchange to execute trades in derivatives listed on the Exchange for their own account and/or for their Clients' accounts in line with the provisions of the SEC's Rules on Regulation on Derivatives Trading and the FMDQ Exchange Derivatives Market Rules.

2. DERIVATIVES TRADING MEMBERSHIP CATEGORIES

FMDQ Exchange offers two (2) Derivatives Trading Membership categories under its Derivatives Market with the essential criteria as provided in the table below:

		Proprietary and Client Trading	
Eligible Institutions		DMBs ¹	NBFIs ²
Trading Rights		All listed exchange-traded derivatives contracts for own and Client accounts	
Minimum SEC Registration Requirement		Relevant SEC Registration (<i>i.e., Dealer, Broker and Broker/Dealer</i>) for Exchange Membership below	
Exchange Membership Requirement		<ul style="list-style-type: none"> ▪ Dealing Member 	<ul style="list-style-type: none"> ▪ Associate Member (<i>Client Trading Only</i>) ▪ Dealing Member (<i>Proprietary and Client Trading</i>)
Financial Requirement		<ul style="list-style-type: none"> ▪ N/A 	<ul style="list-style-type: none"> ▪ ₦200.00mm (<i>Client Trading Only</i>) ▪ ₦300.00mm (<i>Proprietary and Client Trading</i>)

* Financial Requirement refers to minimum Net Liquid Capital requirement on the date of application.

3. APPLICATION PROCESS

- 3.1 An institution seeking to become a Derivatives Trading Member of FMDQ Exchange must submit an expression of interest in the format provided (*see Appendix I*), a completed application form, supporting documentation and relevant application fees as prescribed in *Appendix II* (*where applicable*).
- 3.2 FMDQ Exchange shall review and consider the application and may request additional documents from the prospective Derivatives Trading Member to support its review and decision on the application.
- 3.3 Following the review and consideration of the application, FMDQ Exchange shall communicate its decision to the prospective Trading Member and successful applicants will be granted an “**Approval-in-Principle**”.
- 3.4 A prospective Trading Member, once granted an Approval-in-Principle, shall be required to pay a non-refundable amount determined and communicated by the Exchange as its contribution to the FMDQ Exchange Investor Protection Fund (“**IPF**”).
- 3.5 In addition, the prospective Trading Member shall be required to file an executed Clearing Agreement with a Clearing Member of FMDQ Clear (*except where the prospective Trading Member is a registered Clearing Member*).
- 3.6 Upon finalisation of all requirements and the execution of the Derivatives Trading Membership Agreement, the Trading Member shall be granted a full Derivatives Trading Membership licence and shall have all rights and responsibilities stipulated in the Derivatives Trading Membership Agreement, FMDQ

¹ Deposit Money Banks

² NBFIs includes Securities Dealing and Brokerage Firms

Exchange Derivatives Market Rules and such other regulation as may be prescribed by the Exchange from time to time.

- 3.7 The Exchange may request an applicant to provide further information which it considers necessary to establish whether the applicant satisfies the admission requirements.
- 3.8 The decision as to whether to grant or refuse admission to an applicant is at the sole discretion of the Exchange.
- 3.9 FMDQ Exchange shall have the discretion to waive requirements from time to time.

4. ADMISSION REQUIREMENTS

- 4.1 An institution seeking to become a Derivatives Trading Member of the Exchange must be a registered and active Member³ of the Exchange.
- 4.2 A prospective Trading Member shall demonstrate immediate capacity to engage in the conduct of the business of a Trading Member. The prospective Trading Member shall demonstrate it has adequate resources and well-established processes to undertake the Derivatives trading business. Resources for the purpose of this application shall include technology, human resources, while processes shall include management supervision, training, compliance, risk management, business continuity and disaster recovery processes.

4.3 Operational and Technological Requirements

- (i) A Trading Member must have in place relevant processes, systems and operations to clearly delineate and prevent commingling of Clients' funds and assets with the members' funds and assets including but not limited to opening of relevant custody and cash accounts for Clients' trades.
- (ii) A Trading Member must establish and maintain requisite technological systems (hardware and software) to connect to the designated FMDQ Market Systems, as well as the remote disaster recovery site. The minimum system requirements for trading activities are as specified in [Appendix III](#). Higher specifications may be required depending on the system usage and upgrades to the system from time to time.
- (iii) Trading Members are recommended to deploy and maintain a Treasury Management System capable of the following functionalities at the minimum:
 - (a) maintaining records of the Trading Members' positions in all securities traded in both the cash/spot and derivatives markets
 - (b) carrying out mark-to-market and valuation of positions in all securities traded in both the cash/spot and derivatives markets based on closing prices published by the Exchange or other generally accepted methodologies
 - (c) real-time treasury reporting and management
 - (d) risk management (analytics, risk budgeting/modeling) and regulatory reporting

4.4 Personnel Requirements

- (i) A Derivatives Trading Member must ensure it has a minimum of three (3) key Authorised Representatives, comprising a Senior Executive (any of MD/CEO, an Executive Director or Treasurer), Chief Dealer and Chief Compliance Officer. The Derivatives Trading Member shall also have a Dealer with at least three (3) years experience in Derivatives trading or relevant certification(s) evidencing understanding of Derivatives trading.

³ Dealing or Associate Memberships (or their successor categories) of FMDQ Exchange

- (ii) A Derivatives Trading Member must ensure it has qualified staff with adequate proficiency and experience in derivatives trading and shall be required to provide:
 - (a) Registration of a minimum of two (2) officers with requisite qualifications/experience/training in Derivatives products, markets and trading who will be carrying out their trading activities on the Exchange.
 - (b) Registration of at least one (1) officer in with requisite qualifications/experience/training in back office and compliance functions for their Derivatives market activities on the Exchange.
 - (c) Signed attestation by the Treasurer or Executive Director in charge of trading confirming that their Dealers have the requisite knowledge, experience and skills or confirmation by FMDQ Academy that the relevant staff have attended relevant courses, workshops, seminars, and passed all relevant tests/exams as may be determined by the SEC and/or FMDQ Exchange.
 - (d) Certification by two (2) Authorised Representatives that it will maintain and segregate its derivatives trading operations from the middle and back office functions at all times.
- (iii) Derivatives Trading Members are recommended to have dedicated sales staff who interphase directly with Clients.



**APPENDIX I: DERIVATIVES TRADING MEMBERSHIP EXPRESSION OF INTEREST TEMPLATE
[INSTITUTION'S LETTERHEAD]**

[Date]

The Managing Director

FMDQ Securities Exchange Limited
Exchange Place
35, Idowu Taylor Street
Victoria Island
Lagos

Attention: Head, Business Development Division

Dear Sir/Ma,

LETTER OF EXPRESSION OF INTEREST TO BE A DERIVATIVES TRADING MEMBER OF FMDQ EXCHANGE

We, [Name of Member/Institution] (the "Company"), write to express our interest to become a Derivatives Trading Member of the FMDQ Securities Exchange Limited ("FMDQ Exchange" or the "Exchange").

The Company is a Deposit Money Bank/Non-Bank Financial Institution licensed by the Securities and Exchange Commission ("SEC") to participate in the capital markets as a dealer, a broker or both. Furthermore, the Company is currently a _____ Member of the Exchange and hereby authorises FMDQ Exchange to use its information, documents, and associated filings with respect to its ongoing membership of the Exchange in fulfilment of relevant requirements for consideration and processing of its application for onboarding as a Derivatives Trading Member.

The Company attests that it will abide by the Rules, Regulations, and Guidelines as prescribed and in force from time to time by FMDQ Exchange. In addition, the Company agrees to pay the stipulated application fees and annual membership dues as prescribed by the FMDQ Exchange within the specified timeframe.

Thank you.

Yours faithfully,

For: [Name of Member/Institution]

[Authorised Signatory]

[Authorised Signatory]

APPENDIX II: DERIVATIVES TRADING MEMBERSHIP ONBOARDING DOCUMENTATION REQUIREMENTS

The table below outlines a list of documentation requirements to be provided by an applicant in order to receive a Derivatives Trading Membership licence:

Requirements for Approval-in-Principle Licence	
1.	Duly completed Derivatives Trading Membership Application Form
2.	Evidence of registration with the Commission authorising the prospective Trading Member as a Dealer, a Broker or both
3.	Evidence of meeting the minimum Financial Requirements
4.	Evidence of Operational and Technological Requirements
5.	Detailed resume of staff with adequate derivatives trading knowledge
6.	A signed attestation by the Treasurer or Executive Director in charge of trading confirming the proposed qualified staff have the requisite knowledge in derivatives trading
7.	List of Authorised Representatives (stating their designations)
8.	Evidence of payment of Application Fee
Requirements for Full Membership Licence	
9.	Duly executed Clearing Agreement with at least one (1) registered Derivatives Clearing Member of FMDQ Clear (<i>except where it is a registered Clearing Member</i>)
10.	Duly executed Derivatives Trading Membership Agreement
11.	Evidence of payment of initial contribution to the FMDQ Exchange Investor Protection Fund

APPENDIX III: MINIMUM SYSTEM REQUIREMENTS

Internet Requirements	
Bandwidth	2 megabits-per-second (mbps) dedicated
Software Requirements	
Operating System	Microsoft Windows 7 or later
Browser	Chrome version 29.0.1547.57 or later
Microsoft Framework	.Net 4.6.1 or later
Hardware Requirement	
PC/Laptop Processor	Dual Core 2.1 GHZ
Memory	8 gigabytes (GB) RAM
Disk Space	Minimum 50GB HDD
Network Adapter	Network adapter with TCP/IP Services enabled