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## **Derivatives Clearing Membership Requirements**

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# CONTENTS

PREFACE.....	2
DEFINITIONS.....	3
1. CLEARING MEMBERSHIP CATEGORIES.....	4
2. APPLICATION PROCESS.....	4
3. ADMISSION REQUIREMENTS.....	5
4. DEFAULT FUND CONTRIBUTION.....	6
APPENDIX I: DERIVATIVES CLEARING MEMBERSHIP EXPRESSION OF INTEREST TEMPLATE.....	7
APPENDIX II: DERIVATIVES CLEARING MEMBERSHIP ONBOARDING DOCUMENTATION REQUIREMENTS .....	8
APPENDIX III: MINIMUM DEFAULT FUND CONTRIBUTION .....	9

## PREFACE

FMDQ Clear Limited (“**FMDQ Clear**”), having assumed the responsibility of a critical financial market infrastructure (“**FMI**”) in the Nigerian financial market landscape, has commenced various initiatives towards ensuring that its risk management activities underpin its effectiveness, reliability and long-term sustainability, as it strives to resolve key clearing and settlement issues that led to the birth of the franchise.

This is being done with the development of a robust risk management framework aimed at providing the requisite structure for risk policies, processes and internal control mechanisms to manage, assess and contain the risks posed to market participants in the financial system, in compliance with the global standards set out in the International Organisation of Securities Commissions (“**IOSCO**”) Principles for Financial Market Infrastructures (“**PFMIs**”). FMDQ Clear is set to deliver the Global Competitiveness, Operational Excellence, Liquidity and Diversity (GOLD) standard in post-trade services.

Based on the foregoing, FMDQ Clear has developed its Derivatives Clearing Membership Requirements brief detailing the minimum requirements for entities seeking to become members of FMDQ Clear in the Derivatives Market. These entities, referred to as Derivatives Clearing Members shall be highly capitalised, closely monitored, and carefully selected companies, which stand behind all trades in products executed on the Exchange. Derivatives Clearing Members shall assume full responsibility for the financial performance of all transactions executed and cleared through them with FMDQ Clear, whether for their own account or otherwise.

## DEFINITIONS

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in these Derivatives Clearing Membership Requirements:

<b>“Applicable Law”</b>	means any law, statute, code, ordinance, decree, rule, or regulation of Regulatory Authorities as may be revised, updated, and/or amended from time to time;
<b>“Authorised Representatives”</b>	means employees authorised by the Clearing Member to perform activities on their behalf;
<b>“CBN”</b>	means the Central Bank of Nigeria;
<b>“Clearing House”</b>	means FMDQ Clear Limited; or any corporate entity designated and appointed by FMDQ Exchange for purposes of clearing derivatives traded and/or reported in the FMDQ derivatives market, in accordance with the FMDQ Derivative Market Rules;
<b>“Clearing House Agreement”</b>	means a duly executed legal agreement between the Clearing House and a Clearing Member, defining, <i>inter alia</i> , the rights and obligations related to its capacity as a Clearing Members;
<b>“Clearing House Risk Committee”</b>	means a Committee approved by the Board of the Clearing House whose primary functions are to provide oversight on major risk management policy issues and financial safeguards; to oversee financial surveillance activities and take disciplinary action, if deemed necessary; to adopt regulations regarding qualification for admission to membership in the Clearing House; to provide an open avenue of communication between the Board of the Clearing House, Management, the Clearing House, and the Clearing Members; and to undertake any other matters as the Board of the Clearing House may from time to time prescribe;
<b>“Clearing Member” or “CM”</b>	means a derivatives trading member of FMDQ Exchange who has entered into a Clearing House Agreement with FMDQ Clear and authorised to clear and settle trades through FMDQ Clear;
<b>“Clearing Member Management System”</b>	means an Information technology application provided by FMDQ Clear for use by Clearing Members to connect to the Clearing House and ensure data can be safely and securely transmitted to and from the Clearing House and for the administration of Client contracts;
<b>“Client”</b>	means any person, entity or agent thereof to which a Clearing Member provides clearing and settlement services;
<b>“Collateral”</b>	means cash and securities prescribed by FMDQ Clear to be collected from CMs in respect of initial and variation margin obligations;
<b>“Defaulting Clearing Member”</b>	means a Clearing Member who is considered to be in default either due to its failure to fulfil its obligations on open contracts or any other condition as prescribed by FMDQ Clear from time to time;
<b>“Default Fund”</b>	means a fund managed by FMDQ Clear, contributed to by Clearing Members and FMDQ Clear to protect against exposures resulting from the default of Clearing Members;
<b>“Derivative”</b>	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;
<b>“FMDQ Exchange” or the “Exchange”</b>	means FMDQ Securities Exchange Limited;
<b>“FMDQ Clear”</b>	means FMDQ Clear Limited;
<b>“Initial Margin”</b>	means the value of Collateral determined, specified and held by FMDQ Clear in respect of the aggregate position of a Clearing Member to mitigate against counterparty risk;
<b>“Margin”</b>	means either initial, variation and any other type of margin defined in the FMDQ Derivatives Market Rules;
<b>“Marking-to-market”</b>	means the practice of revaluing positions in securities and financial instruments using their current market rates/prices;

<b>“Non-Clearing Member”</b>	means a derivatives trading member of FMDQ Exchange who is not authorised to clear and settle trades through FMDQ Clear;
<b>“Regulatory Authority”</b>	means the SEC, CBN, or any other authority established by an Act within the Federal Republic of Nigeria with responsibility for the regulated activities of Clearing Members;
<b>“SEC”</b>	means the Securities and Exchange Commission;
<b>“Securities”</b>	is as defined in the <i>Investments and Securities Act 2007</i> or any other successor legislation;
<b>“Settlement Bank”</b>	means the CBN operating account or such other settlement bank designated by FMDQ Clear from time to time;
<b>“Variation Margin”</b>	means cash provided or received by a Clearing Member to or from the Clearing House in respect of the market values of a Clearing Member’s open contract positions.

## 1. CLEARING MEMBERSHIP CATEGORIES

FMDQ Clear offers two (2) clearing membership categories under its Derivatives Markets:

- 1.1 **General Clearing Member (“GCM”)**: is authorised to clear transactions on its own account, its client transactions, as well as transactions for Non-Clearing Members and their clients.
- 1.2 **Direct Clearing Member (“DCM”)**: is authorised to clear transactions on its own account, and its client transactions.

## 2. APPLICATION PROCESS

- 2.1 An institution seeking to become a CM of FMDQ Clear must submit an expression of interest in a format provided ([Appendix I](#)), a completed application form together with relevant documents (*evidencing its ability to fulfil all clearing membership requirements*) and the relevant application fees.
- 2.2 FMDQ Clear will review and consider the application, and this process may include, but not be limited to, the conduct of a due diligence review of the prospective CM's financial performance and position, and its risk management procedures.
- 2.3 Following the review and consideration of the application, FMDQ Clear will communicate its decision to the prospective CM and successful applicants will be granted an **“Approval-in-Principle”**.
- 2.4 A prospective CM, once granted an Approval-in-Principle, will be required to deposit its initial contribution to the Default Fund as assessed by FMDQ Clear.
- 2.5 Upon finalisation of all requirements and the execution of the Clearing House Agreement, the CM shall be granted a full derivatives clearing membership licence and shall have all rights and responsibilities stipulated in the Clearing House Agreement, Clearing House Rules and such other regulation as prescribed by FMDQ Clear from time to time.
- 2.6 FMDQ Clear may request an applicant to provide further information which it considers necessary to establish whether the applicant satisfies the admission requirements.
- 2.7 The decision as to whether to grant admission to a Clearing Member is at the absolute discretion of Clearing House.
- 2.8 For documentation requirements, kindly refer to ([Appendix II](#)).

### **3. ADMISSION REQUIREMENTS**

FMDQ Clear will take both Essential and Additional Requirements into consideration in assessing the admission readiness of a prospective CM.

#### **3.1 Essential Requirements**

- 3.1.1 A CM must be a Deposit Money Bank licensed by the Central Bank of Nigeria.
- 3.1.2 A CM must be a Derivatives Trading Member of FMDQ Exchange.
- 3.1.3 A CM must execute a Clearing Membership Agreement with FMDQ Clear.

#### **3.2 Additional Requirements**

- 3.2.1 Current standing with FMDQ Exchange.
- 3.2.2 Level of compliance with regulatory requirements in its day-to-day activities as stipulated by relevant Regulatory Authorities.
- 3.2.3 Directors, officers and other relevant persons being fit and proper. It is expected that such persons shall not in the period of five (5) years preceding the application, have been:
  - (i) convicted of activities constituting a criminal offence, whether in Nigeria or elsewhere;
  - (ii) employed by or associated in a fiduciary capacity with a member of any exchange, which the member was expelled from that exchange and where the person or officer has contributed to the circumstances leading to the expulsion;
  - (iii) refused entry to or expelled from any profession or vocation or from any fiduciary office or position of trust for breach of fiduciary duty.
- 3.2.4 A CM shall provide a "Letter of No Objection" from the Central Bank of Nigeria or such other relevant Regulatory Authority responsible for licensing and providing supervisory oversight on the institution's primary business.
- 3.2.5 A CM shall demonstrate immediate capacity to engage in the conduct of the business of a CM. The CM shall demonstrate it has adequate resources and well-established processes to undertake the clearing business. Resources for the purpose of this application shall include financial, technology, human resources, while processes shall include management supervision, training, compliance, risk management, business continuity and disaster recovery processes.
- 3.2.6 A CM shall nominate an Authorised Representative at a minimum of Senior Management level to represent the CM before FMDQ Clear.
- 3.2.7 A CM shall be required to contribute to the Clearing House Default Fund an amount prescribed by FMDQ Clear from time to time.

#### **3.3 Operational Requirements**

- 3.3.1 A CM must establish clearing processes, systems and operations clearly delineated from its trading business with appropriate "Chinese walls" the adequacy of which will be verified by FMDQ Clear from time to time.
- 3.3.2 A prospective CM must show evidence of its clearing capacity and operational readiness by demonstrating the following inter alia:
  - (i) Clear segregation of duties between the front and back offices.
  - (ii) Requisite technical and operational skills to perform clearing and settlement activities.

- (iii) A comprehensive risk management framework i.e., adequate risk management systems, policies and methodologies.
- (iv) Operations and Risk Control Plan.
- (v) A Settlement Bank account.
- (vi) Clearly defined business continuity and disaster recovery plans; provided that all of these will be verified by FMDQ Clear from time to time.

3.3.3 All CMs are required to maintain bank accounts at Settlement Bank(s) appointed by FMDQ Clear for settlement purposes. Further, each CM must execute a Direct Debit Mandate in favour of FMDQ Clear, authorising the release of funds to the Clearing House's account upon receipt of direct debit instructions from FMDQ Clear.

### 3.4 Technological Requirements

To ensure the smooth and efficient conduct of clearing activities, a CM shall:

- 3.4.1 Subscribe to the Clearing Member Management System and maintain other relevant Information Technology (IT) equipment and applications (collectively termed "Clearing Member System") to allow the CM connect with the Clearing House System and ensure data can be safely and securely transmitted to and from the Clearing House System, as may be so required by FMDQ Clear from time to time. The minimum system requirements for clearing activities are as specified in [Appendix III](#).
- 3.4.2 Conduct a disaster recovery test at least twice, annually on the Clearing Member System.

### 3.5 Personnel Requirements

- 3.5.1 A CM must ensure that it has at least four (4) qualified staff with adequate proficiency (a minimum of five (5) years cognate experience in clearing operations, risk management or such other discipline as may be determined by the Clearing House from time to time).
- 3.5.2 Evidence of the competency of such qualified staff shall be demonstrated to FMDQ Clear through the following:
  - (i) A signed attestation by the Chief Compliance Officer of the institution confirming the proposed qualified staff have the requisite knowledge, experience and skills.
  - (ii) Confirmation that the qualified staff have attended relevant courses, workshops, seminars, and passed all relevant tests/exams as may be determined by the SEC and/or FMDQ Clear.

## 4. DEFAULT FUND CONTRIBUTION

- 4.1 Pursuant to the provisions of the FMDQ Derivatives Market Rules, a Default Fund shall be established and maintained to strengthen the financial integrity of the derivatives market and ensure settlement of transactions in derivatives in case of default by a Clearing Member. FMDQ Clear shall prescribe the required amount and acceptable mode of payment for Default Fund contributions by CMs from time to time ([Appendix IV](#)).
- 4.2 Securities offered to FMDQ Clear as collateral shall be valued periodically. CMs shall be required to provide additional cash or securities (i.e., *top-up*) where the value of securities provided as Default Fund contributions have fallen below a limit acceptable to FMDQ Clear.

## APPENDICES

### APPENDIX I: DERIVATIVES CLEARING MEMBERSHIP EXPRESSION OF INTEREST TEMPLATE

[DEALING MEMBER'S LETTERHEAD]

[Date]

**The Managing Director**

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

**Attention: Member Regulation Group**

Dear Sir,

**LETTER OF EXPRESSION OF INTEREST TO BE A CLEARING MEMBER OF FMDQ CLEAR LIMITED**

We, [Name of Dealing Member] (the "Company"), write to express our interest to become a Clearing Member of FMDQ Clear Limited ("FMDQ Clear").

The Company is a Deposit Money Bank licenced by the Central Bank of Nigeria and is a Derivatives Trading Member of FMDQ Securities Exchange Limited.

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

Thank you.

Yours faithfully,

**For: [Name of Dealing Member]**

\_\_\_\_\_  
[Authorised Signatory]

\_\_\_\_\_  
[Authorised Signatory]



## APPENDIX II: DERIVATIVES CLEARING MEMBERSHIP ONBOARDING DOCUMENTATION REQUIREMENTS

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

Requirements for Approval-in-Principle Licence	
1.	Duly completed Clearing Membership Application Form
2.	Company Profile containing brief description of the following, <i>inter alia</i> : <ul style="list-style-type: none"> <li>▪ History &amp; Company Overview</li> <li>▪ Details of Business Services</li> <li>▪ Profiles of Board of Directors</li> <li>▪ Profiles of Executive Management Staff</li> </ul>
3.	Certificate of Incorporation
4.	Memorandum and Articles of Association
5.	Particulars of Directors – Latest CAC Form 7
6.	Particulars of Shareholders – CAC form 2 [for Private Companies (Ltd.) only]
7.	Detailed resumes of SEC registered sponsored individuals
8.	Detailed resume of staff with adequate clearing operations and risk management knowledge
9.	A signed attestation by the Chief Compliance Officer of the institution confirming the proposed qualified staff has the requisite knowledge
10.	Evidence of compliance with the minimum paid-up capital as stipulated by SEC/Central Bank of Nigeria (CBN)
11.	List of Authorised Representatives (stating their designations)
12.	Latest Fidelity Bond issued by the Nigerian Deposit Insurance Corporation
13.	Most recent 1 year audited financial statements, not exceeding 18 months from end of the last financial year
14.	Proof of capital adequacy to ensure it is able to meet its obligations (evidenced by a financial statement signed by Chief Financial Officer and Chief Compliance Officer): <ul style="list-style-type: none"> <li>▪ Minimum regulatory capital adequacy ratio</li> <li>▪ Total asset size - ₦1.50trn for GCMs or ₦500.00bn for DCMs</li> <li>▪ Minimum regulatory liquidity ratio in the two (2) financial years immediately preceding the date of the Clearing Membership application</li> <li>▪ Being a profitable institution and having reported a profit before tax in at least two (2) out of three (3) financial years immediately preceding the date of the Clearing Membership application</li> </ul>
15.	Risk Management Framework and evidence of Disaster Recovery and Business Continuity Plan
16.	Provision of a copy of Direct Debit Mandate in favor of FMDQ Clear on the CM's operating account with the CBN sent to Nigeria Inter-Bank Settlement System PLC (NIBSS)
17.	Evidence of Payment of Application Fee
Requirements for Full Membership Licence	
1.	Evidence of deposit for the minimum Default Fund Contribution as may be determined by FMDQC from time to time ( <a href="#">Appendix IV</a> )
2.	Passing of FMDQ on-site examinations to ensure/confirm that technological, risk management processes and human capital requirements are in place
3.	Duly executed Clearing Membership Agreement

### APPENDIX III: MINIMUM SYSTEM REQUIREMENTS

Internet Requirements	
Very stable and reliable internet access	
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

### APPENDIX IV: MINIMUM DEFAULT FUND CONTRIBUTION

The minimum default fund contribution required for each Clearing Member shall be as outlined below:

S/N	Category	Required Contribution per CM (₦' mm) <sup>1</sup>
1	GCM	2,000.00
2	DCM	1,500.00

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<sup>1</sup> Subject to the determination of FMDQ Clear from time to time.