Variation Margin Policy

FMDQ CLEAR LIMITED

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1. Definition of Key Terms

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in this Variation Margin Policy:

Terms	Definitions
"**Business Day**"	means a day (other than a Saturday, Sunday or Federal Government of Nigeria declared public holiday) on which banks are open for business in Nigeria;
"Central Counterparty" or "CCP"	means an entity that interposes itself between counterparties to contracts/transactions traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts/transactions;
"Clearing Member"	means a Trading Member that is either a General Clearing Member or a Direct Clearing Member of FMDQ Clear authorised to clear and settle transactions under the conditions set forth in the FMDQ Clear Clearing Member Rules;
"Clearing System"	means FMDQ Clear's system deployed for data exchange, clearing and settlement of executed contracts/transactions;
"Client"	means a Non-Trading Member or Trading Member whose transactions are cleared and settled by a Clearing Member of FMDQ Clear;
"Collateral"	means the securities or cash pledged by Clearing Members to secure the performance of their obligations with FMDQ Clear;
"Exchange"	means any regulated market, multilateral trading facility, or other trading venue duly authorized, regulated, recognized, or licensed (to the extent necessary) under applicable laws in any jurisdiction for which FMDQ Clear provides CCP service;
"FMDQ Clear"	means FMDQ Clear Limited or the Central Counterparty;
"Mark-to-Market"	Means the revaluation of open Positions on contracts/transactions and securities at the current market prices and the calculation of any gains or losses that have occurred since the last valuation;
"Position"	means the amount of a particular derivative contract, security, commodity or currency owned or held by a Clearing Member on behalf of its Clients;
"Trading Member"	means a member of an Exchange authorised to execute transactions on the Exchange's trading system;
"Valuation Date"	means a specific Business Day when the Positions on a contract are Marked-to-Market to ascertain the current market value.

2. Introduction

FMDQ Clear's Variation Margin Policy shall be read in conjunction with other FMDQ Clear policies, agreements, rules and any other documents as may be published by FMDQ Clear from time to time.

In this document, FMDQ Clear defines its Variation Margin Policy in accordance with Section 13 of the Securities and Exchange Commission's rules on Central Counterparty and in alignment with Principle 6 of the CPMI-IOSCO[1] on Margin.

Variation Margin is a payment obligation paid or received by a Clearing Member to or from the CCP with respect to the changes in the market values of a Clearing Member's open Positions and those of its Clients. Variation Margin shall reflect the daily change in market value of the contracts, i.e., the daily gain or loss on a Position due to market movements. Daily, FMDQ Clear shall value the Positions held by each Clearing Member for its account and those of its Clients, via a Mark-to-Market process, to determine the Variation Margin amount payable to and/or receivable from a Clearing Member for all open Positions.

3. Variation Margin and Contract Valuation Methodology

FMDQ Clear shall conduct daily Variation Margin calculation on its designated Clearing System. The results of this daily Variation Margin calculation shall be available to Clearing Members for reconciliation and reference purposes.

3.1 Market Prices

The calculation of Variation Margin requires the establishment of relevant publicly available market prices. Consequently, settlement prices published by the relevant Exchange shall be used in computing daily Variation Margin obligations for Clearing Members and their Clients.

3.2 Contract Valuation (Determination of Variation Margin)

FMDQ Clear shall determine Variation Margin obligation due to Clearing Members and their Clients on a daily basis as part of the end-of-day procedure or as may be required. In instances of extreme market volatility with regards to contract prices, FMDQ Clear shall conduct an intra-day Mark to Market of Positions to ascertain Clearing Member's current exposure and reserves the right to make scheduled or unscheduled intra-day Variation Margin calls from such a Clearing Member.

Variation Margin obligations shall be cash settled by FMDQ Clear on a T+1[2] basis or as required for intra-day Variation Margin obligations.

4. Posting of Variation Margin

To mitigate credit risk by avoiding build-up of current exposures to the extent possible, FMDQ Clear shall ensure that Variation Margin obligations are posted to and/or received from Clearing Members on a T+1

[1] Committee on Payment and Market Infrastructure – International Organisation of Securities Commissions

[2] Trade date plus one (1) business day

basis or as may be required to cover any loss in a consolidated net Position. This requirement limits the accumulation of current exposures and therefore mitigates potential future exposures.