# MARKET BULLETIN

**February 24, 2020** **FMDQ/MRG/240220/MB-39**

**To:** **ALL DEALING MEMBER (BANKS)**

**From:** **MARKET REGULATION GROUP**

**HEDGING OF DELIVERABLE FX FORWARD TRANSACTIONS USING OTC FX FUTURES CONTRACTS**

1. This Market Bulletin provides guidance to all Dealing Member (Banks) ("**DMBs**") of FMDQ Securities Exchange Limited ("**FMDQ Exchange**" or the "**Exchange**") on the hedging of Foreign Exchange ("**FX**") Forward transactions using the OTC FX Futures contracts offered by the Central Bank of Nigeria ("**CBN**").

2. DMBs are hereby informed that they are permitted to hedge their FX exposures arising from short positions in **deliverable** FX Forward contracts executed with clients on the back of foreign portfolio investments ("**FPIs**"), foreign direct investments ("**FDIs**") and foreign currency ("**FCY**") inflows used to fund Naira-denominated loans (offshore Naira lending) using OTC FX Futures contracts subject to the following conditions:

   (i) The deliverable FX Forward transactions between DMBs and Clients [i.e. foreign investors (portfolio or direct) or offshore Naira lenders] must be executed on the back of foreign capital inflow evidenced by the issuance of Certificates of Capital Importation ("**CCIs**") and corresponding conversion of the foreign capital inflows to Nigerian Naira.

   (ii) The deliverable FX Forward transactions between DMBs and Clients, and the underlying CCIs, shall be registered with FMDQ Exchange. Communication by the Exchange on further guidelines and operational modalities for registration to follow.

   (iii) The OTC FX Futures contract sought to be purchased by a DMB must have a maturity date that matches closest to the maturity date of the underlying deliverable FX Forward transaction between the DMB and the Client.

   (iv) Only deliverable FX Forward transactions executed on the back of new or incremental FX exposures arising from FPIs, FDIs and offshore Naira lending (with CCIs and attendant conversion to Nigerian Naira) executed **from February 13, 2020**, shall qualify for hedging with the OTC FX Futures contracts by DMBs.

3. DMBs shall provide evidence to FMDQ Exchange, of the **completion** of the registered deliverable FX Forward contracts and **non-utilisation (i.e. non-repatriation of inflow)** of the attendant CCIs throughout the life of the related contracts, not earlier than five (5) business days prior to, but within ten (10) business days following, the maturity of the corresponding OTC FX Futures contracts, when settlement will occur.

4. DMBs shall fund the FCY for settlement at maturity of the deliverable FX Forward contracts with their Clients through internal FCY liquidity, inter-bank FX and money market activities.

5. Where a DMB is unable to provide **complete and satisfactory** evidence as in (3), on the tenth business day following the settlement of the OTC FX Futures contract(s), the DMB's CBN operating account shall be debited for the Settlement Amount where there was a contract gain to the DMB at settlement.

6. This Market Bulletin shall be read in conjunction with extant OTC FX Futures Market Operational Standards (the "**Standards**") and other OTC FX Futures Market-related documentation, relevant Market Bulletins, and such other CBN FX-related regulation as may be prescribed from time to time.

7. DMBs are directed to take note of the above guidance as failure to comply with the contents of this Market Bulletin and all other OTC FX Futures-related regulation, shall be considered a violation of the Standards and shall attract appropriate sanctions.

*Please be guided accordingly.*