MARKET BULLETIN

March 12, 2021 **FMDQ/MRG/120321/MB-42**

To: **ALL FUTURES DEALING MEMBER (BANKS)**
From: **MARKET REGULATION GROUP**

FURTHER GUIDANCE ON THE APPLICATION OF THE OTC FX FUTURES MARKET OPERATIONAL STANDARDS

To ensure that all Futures Dealing Member (Banks) ("**DMBs**") of FMDQ Securities Exchange Limited ("**FMDQ Exchange**" or the "**Exchange**") continue to adhere to the requirements stipulated in the OTC FX Futures Market Operational Standards (the "**Standards**"), this Market Bulletin is issued to serve as further guidance on some key requirements in the OTC FX Futures Market.

Part A - Clarifications on the Timelines for Purchase of Spot FX For Certificates of Capital Importation-Based OTC FX Futures Transactions

1. DMBs shall note that the timelines and provisions of section 1.13[1] **do not** apply to Certificate of Capital Importation ("**CCI**")-based transactions. Where an OTC FX Futures contract is CCI-based, the provisions outlined in Sections 6.1 and 7.1 of the Standards will apply:

   *6.1. Foreign Direct Investors ("FDI"), Foreign Portfolio Investors ("FPI") and Foreign Currency ("FCY") loan obligors are exempt from the requirement to provide evidence of the purchase of Spot FX on the maturity of OTC FX Futures contracts to be eligible to receive the Settlement Amounts… the Trade DMBs shall update the FFTRS or such other FMDQ Exchange-advised medium, **providing evidence of the validity of the CCIs at maturity**. Subsequently, the Futures DMBs shall ascertain the validity of the CCIs prior to the release of the Settlement Amounts to the Clients. CCIs not valid at the point of maturity of any OTC FX Futures contract will render the underlying transaction ineligible…*

   *7.1. FPIs shall **not externalise** imported capital until after the maturity date of the OTC FX Futures contract.*

2. Section 6.1 exempts FDIs, FPIs and FCY loan obligors with CCI-related transactions from the requirement to provide evidence of purchase of Spot FX transaction before release of Settlement Amount (*where the OTC FX Futures contract is at a gain*) to the Clients. It also reiterates that Futures DMBs are charged with the responsibility of ensuring that CCIs are valid (i.e. imported capital has not been externalised/repatriated) prior to maturity of a contract.

3. Section 7.1 further reiterates that foreign capital imported by an FPI for the purpose of investment in Nigeria shall remain in the country until the OTC FX Futures contract matures i.e. repatriation of imported capital prior to maturity of an OTC FX Futures contract is prohibited as clarified above.

4. Collectively read, Sections 6.1 and 7.1 of the Standards effectively exclude the applicability of the requirements stated in Section 1.13 of the Standards for all CCI-related transactions as purchase of Spot FX at any time prior to the maturity of an OTC FX Futures contract will render the CCI invalid.

5. Where at maturity of an OTC FX Futures contract, a CCI has been ascertained by the Futures DMB to be invalid, Settlement Amount shall not be released (*where the OTC FX Futures contract is at a gain*). However, where the OTC FX Futures contract is at a loss, the Futures DMB's Central Bank of Nigeria ("**CBN**") operating account shall be debited for the Settlement Amount.

---

[1] *Spot FX may be purchased by Clients around (i.e. before, at or after) the maturity of the corresponding OTC FX Futures contract. However, the purchase of Spot FX before maturity shall be subject to the following provisions:*
(i) Spot FX may be purchased no longer than ten (10) business days prior to the maturity of one (1) month OTC FX Futures contracts.
(ii) Spot FX may be purchased no longer than twenty (20) business days prior to the maturity of OTC FX Futures contracts with tenors longer than one (1) month.
(iii) Where the Client purchases Spot FX earlier than the timeframe stated in section 1.13 (i) or (ii), it shall be presumed that a legitimate hedge no longer exists, as such the Client's OTC FX Futures contract shall be deemed to be cancelled and the provisions of section 6.2 with regards to cancellation of OTC FX Futures contracts, will take effect.

Part B- Updates on the FMDQ Futures Trading & Reporting System

1. As provided under section 6.1 of the Standards, DMBs are required to update the FMDQ Futures Trading & Reporting System ("**FFTRS**") with the following information:
   (i) Evidence of the validity of the CCI-backed OTC FX Futures contract at maturity of the relevant contracts.
   (ii) The date of the release of the Settlement Amount due to Clients, where applicable.
2. Please note that the above-mentioned information should be updated on the FFTRS within ten (10) business days of the maturity of the contracts as provided by section 1.3[2] of the Standards.
3. Failure to update the FFTRS with relevant information on Settlement Amount released to Clients or to notify the Clearing House of unreleased Settlement Amounts (*i.e. due to the invalidity of the CCI used to purchase the contract or such other valid reason*) within this timeframe shall result in the Futures DMB's CBN operating account being debited for the Settlement Amount gained, where applicable.

Part C – Clarification on the Trading Cessation Policy

1. As outlined in the FMDQ OTC FX Futures Market Framework ("the **Framework**") and further clarified in Market Bulletin (MB-24), the Trading Cessation Policy provides as follows:

   Trading[3] shall cease at 2:00 PM, eight (8) calendar days before the expiry date of each respective Contract. i.e. the Tuesday preceding the week the contract expires.

2. Please note that the Trading Cessation Policy is sacrosanct, as such, all trading activities conducted after the trading cessation date shall be treated as non-compliance with the requirements of the OTC FX Futures Market as such, the Futures DMBs shall be liable for all attendant consequences and/or penalties as advised by the Exchange.

Part D - Futures DMBs Responsibilities in the OTC FX Futures Market

1. We kindly wish to reiterate that as Transaction Counterparties to all OTC FX Futures trades conducted on the FFTRS, Futures DMBs are responsible for all documentation due diligence, accuracy and timeliness of reporting of trade information on the FFTRS in strict compliance with the Standards.
2. Consequently, Futures DMBs shall be held accountable for any errors, misconduct or violation of the OTC FX Futures Market regulation, and will therefore be liable for any attendant consequences and/or penalties arising from same; even where the causes of such errors, misconducts or violations arise from their Clients.

This Market Bulletin shall be read in conjunction with extant Standards, other OTC FX Futures Market-related documentation, and such other CBN FX-related regulation as may be prescribed from time to time.

Dealing Member (Banks) are hereby directed to take note of the above guidance and comply.

Kindly take note and be guided accordingly.

---

[2] *All OTC FX Futures contracts shall be traded on the FFTRS, and all relevant information (including the status of the relevant Spot FX transactions) shall be updated to the FFTRS or such other FMDQ-advised medium within ten (10) business days of the maturity of the OTC FX Futures contracts. Additionally, the report on the utilisation of the attendant Spot FX transactions shall also be updated to the FFTRS or such other FMDQ-advised medium within five (5) business days of the execution of the Spot FX transaction.*

[3] *"Trading" within the context of the Framework and the FMDQ OTC FX Futures Operational Standards means all activity in the OTC FX Futures contracts, including but not limited to buying/selling, transfers and substitutions*