REPO MARKET SETTLEMENT AND COLLATERAL MANAGEMENT PROCESS

May 2021

TABLE OF CONTENTS

DEFINITIONS

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in this Repo Market Settlement and Collateral Management Process.

"Adjusted Market Value"	means the value of a Collateral calculated based on the closing market price of the Collateral;
"Business Day"	means a day (*other than a Saturday, Sunday or Federal Government of Nigeria declared public holiday*) on which banks are open for general business in Nigeria;
"CBN"	means Central Bank of Nigeria;
"CBN Operating Account"	means an account maintained with the CBN by the Settlement Bank;
"CBN S4"	means the CBN Scripless Securities Settlement System, being the central securities depository system for the settlement of Federal Government of Nigeria and CBN fixed income securities transactions;
"Classic Repo"	means a Repo Transaction in which the borrower temporarily transfers securities to a lender as collateral for a cash loan with an agreement to return the cash at a predetermined rate and future date;
"Clearing Cycle"	means the daily valuation of Collateral and the determination of Collateral Top-ups;
"Collateral"	means the securities exchanged in a Repo Transaction;
"Collateral Management"	means the right to call and the obligation to make transfers of Collateral in order to eliminate any net exposures that arise in a portfolio of Repo Transactions between Counterparties;
"Collateral Top-up"	means the value of Collateral required to meet the Maximum Exposure Value agreed on the Repo Transaction;
"Consideration"	means the monetary payment made by Repo Buyer to a Repo Seller in exchange for the transfer of securities;
"Eligible Security"	means tradeable financial securities acceptable by FMDQ Clear as Collateral;
"Failed Trade"	means any trade by a Transaction Counterparty for which settlement does not occur as at when due;
"FMDQ Clear"	means FMDQ Clear Limited;
"FMDQ Depository"	means FMDQ Depository Limited;
"FMDQ Exchange" or the "Exchange"	means FMDQ Securities Exchange Limited;
"Mark-to-Market"	means the act of revaluing Collateral to current market values;
"Maximum Exposure Value"	means the permissible change in the market value of Collateral determined before a Collateral Top-Up will be required;
"NIBSS"	means the Nigerian Inter-Bank Settlement System PLC;
"Operational Standards"	means standards developed by FMDQ Exchange for the effective administration of the Repo Market;

“Q-ex” or the “System”	means the FMDQ Proprietary Market System capable of multi-asset class trading, clearing, collateral management and surveillance or any other system so advised by FMDQ Exchange from to time;
“Repurchase Agreement” or “Repo” or “Repo Transaction”	means the generic term for Classic Repos and Sell/Buy-Backs which involves a loan/sale of securities with a simultaneous agreement to return/repurchase the securities at a specified price on a predetermined future date;
“Repo Buyer”	means the Counterparty that pays cash and receives Collateral at the inception of a Repo;
“Repo Market” or the “Market”	means the subset of the FMDQ Exchange markets established for the purpose of trading Repos;
“Repo Seller”	means the Counterparty that receives cash and transfers Collateral at the inception of the Repo;
“RTGS”	means Real Time Gross Settlement;
“Securities Holdings Balances”	means the Transaction Counterparty’s statement of securities on the CBN S4;
“Sell/Buy-Back”	means a temporary cash loan to a Repo Seller through the short-term sale of securities by a Repo Seller against a transfer of cash by a Repo Buyer, with a simultaneous agreement for the Repo Seller to repurchase the securities at a future predetermined date and price;
“Settlement Bank”	means the primary bank for making/receiving payments from NIBSS and receiving/transferring securities on the CBN S4;
“Settlement Cycle”	means the settlement process of fixed income securities transactions and Repo Transactions;
“Settlement Obligation Requirements”	means the minimum required securities value for settlement of Repo Transaction;
“Transaction Counterparties” or “Counterparties”	means FMDQ Exchange Dealing Members, Institutional Investors and such other eligible entities executing a Repo Transaction.

1. INTRODUCTION

This document details the process flow for the clearing and settlement of Repo Transactions in the Nigerian financial market and shall be read in conjunction with all relevant Rules, Operational Standards, Market Bulletins, Market Notices, membership/market agreements, and such other regulation as may be prescribed or advised by FMDQ Exchange from time to time.

The trading, clearing and settlement activities of Repo Transactions, as well as Collateral Management processes shall be conducted on the System or such other designated trading system as advised by FMDQ Exchange.

This System has been optimised for trading, reporting, risk management, settlement and surveillance of the Repo Market with the following benefits:

(i) The elimination of manual capturing of trades for settlement on the CBN S4.
(ii) Delivery of cost efficiencies to Transaction Counterparties.
(iii) Improved capacity to reconcile transactions with related security and cash movements.
(iv) Efficient and effective collateral and risk management processes; and
(v) Reduced potential for trade settlement default.

2. CLEARING AND SETTLEMENT OPERATIONS

All Transaction Counterparties shall be subject to the prescriptions of this Repo Market Settlement and Collateral Management Process and the attendant settlement rules as prescribed by FMDQ Exchange, FMDQ Clear, FMDQ Depository which shall be aligned with the CBN S4 and RTGS operational requirements from time to time. The operating activities for clearing and settlement shall be carried out daily on Q-ex and is sub-divided into different stages as follows:

2.1. Settlement Cycles

Trades executed in the Repo Market will be automatically transmitted to the System for clearing and settlement activities. Clearing and Settlement Cycles shall be conducted by FMDQ Clear and FMDQ Depository respectively, every Business Day. Settlement Cycles shall be conducted by 10:00 AM, 1:00 PM, 3:00 PM, 5:00 PM and 6:00 PM or at any other time as may be determined by FMDQ Depository and agreed with the market[1]. Activities for each Settlement Cycle run shall commence thirty (30) minutes before the end time or at any other time as determined by FMDQ Depository. The following activities shall be undertaken during each Settlement Cycle run:

Settlement Cycles Schedule												
S/N	Activities	Responsibility	1st Cycle		2nd Cycle		3rd Cycle		4th Cycle		5th Cycle	
			Start time	End time	Start time	End time	Start time	End time	Start time	End time	Start time	End time
A	Auto fill of Settlement Obligation Requirements	FMDQ Depository	9:30 AM	9:40 AM	12:30 PM	12:40 PM	2:30 PM	2:40 PM	4:30 PM	4:40 PM	5:30 PM	5:40 PM
B	Upload of Security Holdings Balances	Transaction Counterparty	9:40 AM	10:00 AM	12:40 PM	1:00 PM	2:40 PM	3:00 PM	4:40 PM	5:00 PM	5:40 PM	6:00 PM
C	Auto Allocation of Securities	FMDQ Depository	10:00 AM	10:10 AM	1:00 PM	1:10 PM	3:00 PM	3:10 PM	5:00 PM	5:10 PM	6:00 PM	6:10 PM
	Generation and Transmission of Settlement Instructions		10:10 AM		1:10 PM		3:10 PM		5:10 PM		6:10 PM	

[1] In the event of a System downtime, or such other unforeseen events as may be determined by FMDQ Depository from time to time which impacts the timelines for Settlement Cycles, FMDQ Depository shall advise market participants of an extension of the Settlement Cycle to accommodate trade settlement.

A. FMDQ Depository processes the trades, making available the Settlement Obligation Requirements for the first Settlement Cycle run. For the second, third and fourth cycles, these shall include newly executed T+ 0 trades and unprocessed trades from the previous Settlement Cycle.

B. Transaction Counterparties shall review their Settlement Obligation Requirements, make provision for them and update their Securities Holdings Balances on Q-ex.

C. FMDQ Depository allocates securities, generates and transmit settlement instructions to the CBN S4 for processing.

2.2. Post-Settlement Cycle

2.2.1.Treatment of Unsettled Trades

(i) Trades marked as "unsettled" due to non-provision of the relevant securities during the Settlement Cycle, shall be re-processed for settlement in the next Settlement Cycle run.

(ii) Trades returned and marked as "unsettled" due to shortage of cash or securities on the CBN S4, shall remain queued on Q-ex and awaiting representation for settlement upon the confirmation of the availability of cash or securities during the day by the Transaction Counterparty.

2.2.2. Other Considerations

(i) Transaction Counterparties **MUST** make provision for all outstanding settlement obligations in time for each Settlement Cycle run.

3. ROLLOVER OF REPO TRANSACTIONS

3.1. Rollover of Unsettled Repo Transactions (Far Leg)

The far leg of Repo Transactions for which the near leg has settled can be rolled over for settlement on a newly agreed settlement date between Transaction Counterparties on or before the pre-agreed settlement date.

(i) Transaction Counterparties shall initiate rollover of a Repo Transaction's far leg to a new settlement date on or before the pre-agreed settlement date via the 'Rollover' sub-module on the System.

(ii) Approval request for the rollover is transmitted by the requesting Counterparty via the System to the receiving Counterparty for concurrence.

(iii) Upon concurrence by the Counterparty:

a) A new far leg of the Repo Transaction is generated with a new settlement date.

b) A transaction record for the payment of cash interest amount earned on the rolled-over transaction is generated for T+0 settlement.

(iv) Collateral can also be substituted during rollover of Repo Transactions.

4. END OF DAY (EOD) SETTLEMENT CYCLE ACTIVITIES

4.1. Treatment of Settlement Default

(i) All trades marked as "unsettled" by the close of the last Settlement Cycle shall be declared as "Failed Trades".

(ii) Each Failed Trade shall be rolled over and re-presented for settlement during the next settlement day's first Settlement Cycle run.

(iii) Transaction Counterparties responsible for Failed Trades shall be subject to sanctions and penalties as contained in the FMDQ Trading and Reporting Infractions & Penalties Guide as well as applicable CBN S4 sanctions.

5. COLLATERAL MANAGEMENT

5.1. Details of Repo Transactions for which the near leg has settled shall be transmitted to the Collateral Management module on the System.

5.2. Collateral Management shall cease upon maturity of the far leg of the Repo Transaction. The operating activities for Collateral Management shall be administered on the System on a daily basis. These activities are sub-divided into different stages as follows:

5.2.1 Price Insertion and Collateral Valuation

(i) Valuation of Collateral shall be carried out twice daily at 1:30 PM and 6:30 PM by FMDQ Clear using the securities closing prices as determined the Exchange.

(ii) Securities transferred as Collateral for Repo Transactions shall be valued using FMDQ Clear's Mark-to-Market methodology.

5.2.2 Determination of Collateral Sufficiency/Collateral Top-up Notification

(i) The Maximum Exposure Value (5.00%)[2] shall be as documented in the Repo Market Framework

(ii) The System shall compute the Maximum Exposure Value of a Repo Transaction and the Adjusted Market Value of the Collateral in a Repo Transaction.

(iii) FMDQ Clear shall determine Collateral sufficiency by comparing the Adjusted Market Value of the Collateral to the Consideration of the Repo Transaction.

(iv) FMDQ Clear shall request for Collateral Top-up if the difference (in absolute value) between the Consideration of the Repo Transaction and the Adjusted Market Value of the Collateral is greater than the Maximum Exposure Value.

(v) Collateral Top-up reports shall be immediately available on the System and FMDQ Clear shall send Collateral Top-up notification to the Transaction Counterparties' registered email addresses.

5.2.3 Collateral Top-up Process

(i) Transaction Counterparties shall be required to provide additional Collateral no later than 10:00 AM the next Business Day.

(ii) Where a Transaction Counterparty fails to provide the requisite additional Collateral by the next Settlement Cycle run following the Collateral Top-up deadline, an Event of Default shall be declared

(iii) FMDQ Depository shall debit the CBN Operating Account of the defaulting Transaction Counterparty's Settlement Bank via NIBSS with the equivalent cash amount of the required Collateral Top-up.

5.2.4 Collateral Substitution/Release

(i) Collateral Substitution shall be initiated and executed by Transaction Counterparty on the System.

(ii) The substitution of Collateral is only permissible before the Settlement Date of the far leg of the Repo Transaction.

(iii) Upon initiation and execution of Collateral Substitution on a Classic Repo, the System shall generate transaction records for the release of initially transferred Collateral and subsequent transfer of substitute Collateral.

(iv) Transaction records generated by the System shall be processed for settlement in the next Settlement Cycle.

[2] As determined by FMDQ Clear and agreed with market participants from time to time