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**REPO MARKET OPERATIONAL STANDARDS**

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**April 2021**

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## DEFINITIONS

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in these Repo Market Operational Standards (the “Standards”):

“Agreements”	means the relevant Membership Agreement, Repo Market Agreement and such other agreements executed between FMDQ Exchange and the Transaction Counterparties with respect to their participation in the Market;
“Applicable Law”	means any law, statute, code, ordinance, decree, rule, or regulation of Regulatory Authorities as may relate to activities within the Market (as may be revised from time to time);
“Authorised Representatives”	means employees authorised by Transaction Counterparties to perform activities on their behalf of the Exchange. Authorised Representatives include, but are not limited to, treasurers, dealers, compliance officers, treasury operations staff, treasury sales staff, risk officers and control & audit;
“Business Day”	means a day ( <i>other than a Saturday, Sunday or Federal Government of Nigeria declared public holiday</i> ) on which banks are open for general business in Nigeria;
“CBN”	means the Central Bank of Nigeria;
“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;
“Close-Out Balance”	means the amount of loss or gain to the non-defaulting party in the Event of Default which would be determined at the Termination Date in accordance with a Close-Out Methodology advised by the relevant agent appointed by the Exchange from time to time;
“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 Management System”	means the designated risk management system for managing Collateral transferred in a Repo Transaction;
“Collateral Top-up”	means the value of Collateral required to meet the Maximum Exposure Value agreed on the Repo Transaction date;
“Dealing Members (Banks)” or “DMBs”	means CBN-licenced banks admitted by FMDQ Exchange that make market in the products traded on the Exchange;
“Default Management Process”	means the measures taken by the relevant agent appointed by the Exchange, aimed at containing losses, ensuring operations are not disrupted and that non-defaulting party are not exposed to losses that they cannot anticipate or control;
“Designated Settlement Officer”	means an Authorised Representative of a Transaction Counterparty responsible for the settlement of its Repo Transactions;
“Early Settlement Amount”	means an amount equal to the sum of the Unpaid Amounts (inclusive of interest) and the Close-Out Balance with respect to Repo in an Event of Default;
“Early Termination Date”	means a date, being no more than two (2) Business Days or such other period as may be commercially reasonable upon occurrence of an Event of Default so designated by the relevant agent appointed by the Exchange, as the date in which

	all transactions of a defaulting party would be closed out and Early Settlement Amounts determined;
<b>“Event of Default”</b>	<p>for the purpose of Repo Transactions executed in Nigeria, an Event of Default shall be strictly construed, notwithstanding anything to the contrary, to mean such event as may be deemed by the relevant agent appointed by the Exchange as an Event of Default in respect of a Counterparty, which shall include the following events <i>inter alia</i>:</p> <ul style="list-style-type: none"> <li>(i) Any representation made by a Counterparty which proves to have been incorrect, or ceases to be correct;</li> <li>(ii) A declaration of a Counterparty’s inability or unwillingness to pay all or any part of its debts or meet its obligations, the granting of a moratorium by the administrative or judicial authorities, a voluntary general arrangement with assignment to creditors, the appointment of an administrator at the request of the courts, the appointment of a receiver or manager on any of the assets of the Counterparty, a ban imposed by any regulatory authority on the raising of capital on a market, or any equivalent procedure;</li> <li>(iii) The commencement of court-ordered reorganisation or winding-up proceedings or any equivalent proceedings concerning the Counterparty and its subsidiaries;</li> <li>(iv) Failure to meet any payment obligation when due, other than such obligations arising out of a Repo Transaction save in the event of any manifest error and unless the payment of such sum is subject to a serious substantive dispute; or</li> <li>(v) Any event likely to result in any Collateral or security granted separately in favour of a Counterparty in respect of one or more Repo Transactions becoming void, unenforceable, or ceasing to exist, or any of the foregoing events affecting a third party that has issued a personal guarantee in respect of a Repo Transaction;</li> <li>(vi) Such other event as may be determined by FMDQ Exchange from time to time.</li> </ul>
<b>“Far Date”</b>	means the future date on which the Repo Seller and Repo Buyer are required to perform acts to extinguish their repayment obligations under the terms of the Repo. The Far Date may also be called the Repo Maturity Date;
<b>“FMDQ Clear” or the “Clearing and Collateral Management Agent”</b>	means FMDQ Clear Limited;
<b>“FMDQ Complaints Management Framework”</b>	means the FMDQ Exchange Complaints Management Framework;
<b>“FMDQ Depository” or the “Settlement Agent”</b>	means FMDQ Depository Limited;
<b>“FMDQ Exchange” or the “Exchange”</b>	means FMDQ Securities Exchange Limited;

<b>“Global Master Repo Agreement (GMRA)”</b>	means the principal master agreement for cross-border repos globally, as well as for many domestic repo markets as published by the International Capital Market Association (ICMA);
<b>“Haircut”</b>	means an agreed percentage discount applied to the market value of a Collateral to fix the Purchase Price at the start of a Repo. A Haircut is expressed as the percentage difference between market value and purchase price;
<b>“Institutional Investors”</b>	means Pension Fund Administrators, Asset/Fund Managers, Investors and such other institutions as may be advised by the Exchange from time to time, eligible to participate in the Repo market by trading only with FMDQ Exchange Dealing Members and not amongst themselves;
<b>“Mark-to-Market”</b>	means the act of revaluing Collateral to current market values;
<b>“Maximum Exposure Value”</b>	means the permissible change in the market value of Collateral determined before a Collateral Top-Up will be required;
<b>“Near Date”</b>	means the date on which the Repo Seller is required to deliver the Collateral Securities and the Repo Buyer is required to deliver the cash to consummate the Repo;
<b>“Nigerian Master Repurchase Agreement (NMRA)”</b>	means an agreement which must be executed by Repo Transaction Counterparties with the CBN;
<b>“Operating Account”</b>	means the Repo Counterparty’s cash and securities settlement accounts held by the CBN;
<b>“Operational Standards”</b>	means standards developed by the Exchange for the effective guidance of the Repo Market;
<b>“Purchase Price”</b>	means the sum of money transferred by the Repo Buyer to the Repo Seller for a Repo Transaction. It is equal to the market value of the Collateral less the agreed Haircut between Transaction Counterparties.
<b>“Rehypothecation”</b>	means the right which the Repo Seller gives to the Repo Buyer to sell Collateral posted against a Repo Transaction;
<b>“Repurchase Agreement” or “Repo” or “Repo Transaction”</b>	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;
<b>“Repo Buyer”</b>	means the Counterparty that pays cash and receives Collateral at the inception of a Repo;
<b>“Repo Interest”</b>	means the amount that the Repo Seller will pay the Repo Buyer at the Repo Maturity Date on the Collateral;
<b>“Repo Market” or the “Market”</b>	means the subset of the FMDQ Exchange markets established for the purpose of trading Repos;
<b>“Repo Maturity Amount”</b>	means the Repo Amount plus the Repo interest, payable by the Repo Seller to the Repo Buyer on the Repo Maturity Date;
<b>“Repo Maturity Date”</b>	means the future date on which the Repo Seller and Repo Buyer are required to perform acts to extinguish their repayment obligations under the terms of the Repo Agreement executed and these Standards;
<b>“Repo Seller”</b>	means the Counterparty that receives cash and transfers Collateral at the inception of the Repo;

<b>“Sell/buy-back”</b>	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 price and date;
<b>“Settlement Bank”</b>	means the primary bank for making/receiving payments from the Nigerian Inter-Bank Settlement System PLC and receiving/transferring securities on the CBN S4;
<b>“Settlement Date”</b>	means the date at which the Repo Buyer receives the relevant Collateral and delivers cash to the Repo Seller;
<b>“Substitution”</b>	means the act of replacing the initial Collateral posted for a Repo Transaction with new Collateral in order to keep the Repo Transaction itself intact;
<b>“Q-ex” or the “System”</b>	means the FMDQ Exchange Proprietary Market System capable of multi-asset class trading, clearing, collateral management and surveillance or any other system so advised by the Exchange from to time;
<b>“Termination Date”</b>	means the date on which Repurchase Transactions entered into by Counterparties are terminated due to an Event of Default;
<b>“Transaction Counterparties” or “Counterparties”</b>	means FMDQ Exchange Dealing Members, Institutional Investors and such other eligible entities executing a Repo Transaction;
<b>“Unpaid Amounts”</b>	mean amounts owed to or by a Counterparty with respect to a Repo Transaction being due and payable from the execution of the Agreement and up to the Early Termination Date;
<b>“Voice Trades”</b>	means Repo Transactions executed by Transaction Counterparties outside of the System. These are transactions conducted via telephone, email, chat rooms or such other FMDQ Exchange-advised media.

## **1. GENERAL STANDARDS**

- 1.1. These Standards are made pursuant to the FMDQ Exchange General Market Rules approved by the Securities and Exchange Commission (December 5, 2014).
- 1.2. The Standards shall regulate the activities of all participants in the Repo Market.
- 1.3. All Repo Transactions shall be traded and/or reported on the System as advised by the Exchange from time to time, and all relevant information shall be updated to the System within the stipulated timeline as advised by the Exchange.
- 1.4. Transaction Counterparties shall adhere strictly to the provisions of these Standards and report any breach by any other Counterparty in the Repo Market.
- 1.5. All Repo Transactions shall be conducted in accordance with such trading standards as may be prescribed by the Exchange from time to time.
- 1.6. Transaction Counterparties are expected to adopt the highest level of professionalism in the execution of all Repo Transactions.
- 1.7. In order to aid seamless processing of transactions in the Repo Market, transaction records shall be available to Transaction Counterparties on the System upon execution of each Repo Transaction.
- 1.8. These Standards shall be read in conjunction with Applicable Law, the relevant FMDQ Exchange Rules, the Repo Market Framework, the Agreements, Market Bulletins, Market Notices made pursuant to the Standards, and such other regulation as may be prescribed from time to time.

## **2. GENERAL REQUIREMENTS FOR PARTICIPATION IN THE REPO MARKET**

- 2.1. Transaction Counterparties should ensure that they have adequate systems and controls for the business they intend to undertake. These should include the following:
  - (i) Establishment and regular updating of their documentation to ensure their adequacy to cover the types of transactions to be undertaken;
  - (ii) Maintenance of lists of Authorised Representatives to engage in Repo Transactions on their behalf and should make this list available to the Exchange upon request;
  - (iii) Employment of suitable internal controls designed to ensure that all Repo Transactions have been properly authorised before cash is paid against an obligation to lend;
  - (iv) Maintenance of lists of Authorised Representatives to engage in Repo Transactions on their behalf and should make this list available to the Exchange upon request;
  - (v) Monitoring of their exposures to Transaction Counterparties on a real time basis. Appropriate exposure limits should be maintained for all Transaction Counterparties and, whether part of a group limit or solo limit for the party concerned, should be reviewed on a regular basis.
- 2.2. Transaction Counterparties should ensure that they use FMDQ Exchange-approved documentation and have assured themselves of the effectiveness of the documentation, and that they, or a competent person, have undertaken a thorough credit assessment of Counterparties in the Repo Market.

## **3. LEGAL AGREEMENT**

- 3.1. All Repo Transactions shall be subject to a legally binding master agreement e.g., NMRA, GMRA or such other agreement recognised by the Exchange from time to time.
- 3.2. The master agreement shall provide for:
  - (i) the absolute transfer of title to securities (this includes any security transferred through initial collateralisation, Substitution or Mark-to-Market adjustment of Collateral) in respect of a documented Sale/Buy-Back transaction;
  - (ii) daily Mark-to-Market of transactions;

- (iii) appropriate Haircut and for maintenance of Collateral, or re-pricing, whenever Mark-to-Market reveals a material change in value;
- (iv) a clear description of Events of Default and the consequential rights and obligations of the Counterparties;
- (v) full set-off of claims between the Transaction Counterparties in the Event of Default;
- (vi) provisions clarifying the rights of the Transaction Counterparties regarding the Substitution of Collateral and the treatment of coupon and interest payments in respect of securities subject to it including, for example, the timing of any payments;
- (vii) the Rehypothecation of Collateral used in a Repo Transaction and that the Collateral must be made available to the Repo Seller at the maturity of the contract.

3.3. In addition to the above, Transaction Counterparties shall execute the Repo Market Participation Agreement with FMDQ Exchange.

#### **4. DUTIES AND OBLIGATIONS OF THE TRANSACTION COUNTERPARTIES**

##### **4.1. General Obligations**

- (i) DMBs shall act as Settlement Banks with respect to all Repo Transactions and shall comply with the Collateral Management process as advised by FMDQ Clear.
- (ii) Transaction Counterparties shall pay all relevant fees related to Repo Transactions as prescribed by FMDQ Exchange.
- (iii) Transaction Counterparties shall comply with the technical requirements of the System and/or any other information technology system, network, portal etc. operated and advised by the Exchange.
- (iv) Transaction Counterparties shall immediately notify the Exchange, in writing, of any event that is likely to affect their ability to engage in trading activities in the Repo Market.
- (v) Transaction Counterparties shall diligently supervise their Authorised Representatives in the conduct of their trading activities and shall take reasonable steps to ensure that their Authorised Representatives do not participate in any form of insider trading, fraudulent acts or assist any legal entity to participate in any such insider trading or fraud.
- (vi) Transaction Counterparties shall ensure that documents, records, or any other material related to trading, howsoever called, are kept strictly confidential and shall maintain proper records and accounts of all Repo Transactions carried out for such period as may be required by Applicable Law.
- (vii) Transaction Counterparties shall keep and retain all recordings of phone conversations and all correspondence, in respect of Repo Transactions and shall retain for such period as may be required by Applicable Law.
- (viii) Transaction Counterparties' Repo Transaction policies and procedures shall be subject to the Exchange examinations.
- (ix) Transaction Counterparties shall comply with such other rules, guidelines, standards and regulations as the Exchange may prescribe from time to time.

##### **4.2. Reporting Obligations**

- (i) Transaction Counterparties shall comply with the reporting requirements as determined by the Exchange from time to time.
- (ii) All Repo Transactions shall be executed on the System. However, where a Transaction is executed outside the System (e.g., over the telephone), the Transaction Counterparty shall report same as a Voice Trade on the System or such other FMDQ Exchange-advised media within thirty (30) minutes of the execution of such Transaction.

- (iii) Transaction Counterparties shall, upon the request of the Exchange, submit complete and accurate data in the FMDQ Exchange-advised reporting template(s).

## **5. DUTIES AND OBLIGATIONS OF THE REPO BUYER**

### **5.1. Repo Buyer Qualifications**

- (i) A Repo Buyer shall:
  - (a) Be duly admitted onto the Exchange having executed the necessary Agreements, signifying its understanding and consent to be bound by these Standards and such other regulation as may be prescribed by FMDQ Exchange from time to time.
  - (b) Have an Operating Account with the CBN or must settle through a Transaction Counterparty with an Operating Account with CBN.
  - (c) Inform the Exchange of its Designated Settlement Officer(s).
  - (d) Cause the transfer of the Repo Amount to the Operating Account designated by the Repo Seller on the Near Date upon receipt of a confirmation from the Exchange that a Repo was executed in favour of such Repo Buyer.
  - (e) Receive the Repo Maturity Amount on Repo Maturity Date, simultaneously with the delivery by the Clearing and Collateral Management System of the Collateral to the Repo Seller.
  - (f) Pay all relevant fees.

### **5.2. Obligation to Make Coupon Payments or other payments on a security being used as a Collateral**

- (i) In a Classic Repo, the Repo Buyer (lender of cash and receiver of securities) is required to pay all interests and other payments on the securities to the same extent the Repo Seller (borrower of cash and giver of securities) would have been entitled to receive had it not entered into the Repo Transaction on the securities no later than 2:00 PM the following Business Day of receipt. Consequently, if an issuer of securities fails to make an income payment, the Repo Buyer shall have no obligation to make the corresponding income payment to the Repo Seller.
- (ii) In a Sell/Buy-Back transaction, the Repo Buyer is required to pay all interest and other payments on the securities at maturity, which will be factored into the buy-back price when carrying out the deal.

## **6. DUTIES AND OBLIGATIONS OF THE REPO SELLER**

### **6.1. Repo Seller Qualifications**

- (i) A Repo Seller shall:
  - (a) Be duly admitted onto the Exchange having executed the necessary Agreement, signifying its understanding and consent to be bound by these Standards and such other regulation as may be prescribed by FMDQ Exchange from time to time.
  - (b) Have an Operating Account with the CBN or must settle through a Transaction Counterparty with an Operating Account with CBN.
  - (c) Inform the Exchange of their Designated Settlement Officer(s).
  - (d) Have acceptable and adequate Collateral securities to cover all of its outstanding Repo Transactions from inception until maturity.
  - (e) Deliver the agreed Collateral covering its Repo Transaction(s) on the Near Date.
  - (f) Promptly deposit additional Collateral upon receipt of a Collateral Top-up notice.
  - (g) Promptly inform the Exchange that an Event of Default has occurred with respect to itself and repay the Repo in accordance therewith.
  - (h) Pay the Repo Maturity Amount to the Repo Buyer on the Repo Maturity Date (This amount includes the Repo Interest due to the Repo Buyer adjusted for accrued interest on the Collateral).
  - (i) Pay all relevant fees.

## **7. DUTIES AND OBLIGATIONS OF FMDQ CLEAR**

### **7.1. FMDQ Clear shall:**

- (i) Advise a Maximum Exposure Value<sup>1</sup> which shall be applicable for the activation of Collateral Top-ups in the Repo Market.
- (ii) Value all Repo portfolios and calculate Collateral Top-Ups (subject to the Maximum Exposure Value) twice daily or as may be required and shall send the Collateral Top-Up notifications to the Transaction Counterparties and their respective Settlement Banks.
- (iii) Advise all Transaction Counterparties and their respective Settlement Banks of Collateral Top-Ups by close of business on the date of valuation of Collateral. Notices may also be sent to Transaction Counterparties and Settlement Banks at intervals using intraday prices.
- (iv) Advise a standard Haircut for the Collateral but Transaction Counterparties may agree to a different Haircut based on their mutually agreed credit and market risk assessments.
- (v) FMDQ Clear shall verify Counterparty Collateral Top-Ups on a daily basis with FMDQ Exchange data and identify term or trade discrepancies with daily portfolio reconciliation and dispute resolution support.
- (vi) Ensure all Collateral obligations are settled at when due.

## **8. ACCESS TO THE SYSTEM**

- 8.1. Transaction Counterparties shall advise the Exchange of the personnel to be provided with access to the System and it shall be the responsibility of each Transaction Counterparty to ensure the list of Authorised Representatives with the Exchange is updated at all times.
- 8.2. Where there is a change in the personnel, Transaction Counterparties shall no later than two (2) Business Days of such change, notify the Exchange by filing an updated list of Authorised Representatives, signed by the Chief Compliance Officer, Treasurer or such other authorised signatory.
- 8.3. Transaction Counterparties shall not allow any person other than duly appointed and advised Authorised Representatives gain access to the System.

## **9. MARKET OPERATIONS**

### **9.1. Market Participation**

- (i) The Market shall be open for trading every Business Day during the trading hours as outlined in the Market Framework. The Exchange may, however, reduce or extend the trading hours as it deems appropriate for the benefit of the Market, and same will be advised to all participants in the Market.
- (ii) Notwithstanding the above, the Exchange may declare a trading halt under one (1) or more of the following circumstances: -
  - (a) Where there is a suspicion of insider trading.
  - (b) Where there is a suspicion that trading activity is influenced by manipulative or deceptive trading practices.
  - (c) Such other circumstances as may be prescribed by the Exchange from time to time.
- (iii) Absence from the Market shall not preclude a Transaction Counterparty from exercising its outstanding obligations to other Transaction Counterparties and the Exchange.

## **10. TRADING GUIDELINES**

- 10.1. All trades in the Market shall be executed on the System. However, where the transaction is executed outside

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<sup>1</sup> As determined by FMDQ Clear and agreed with market participants from time to time.

of the System, Transaction Counterparties shall report same as a Voice Trade on the System or such other FMDQ Exchange-advised media within thirty (30) minutes of the execution of such transaction.

- 10.2. Transaction Counterparties are only permitted to trade acceptable Collateral as outlined in the Repo Market Framework.
- 10.3. Transaction Counterparties shall execute their Repo Transactions in accordance with the market standards prescribed by the Exchange from time to time.
- 10.4. Transaction Counterparties shall update indicative quotes on the System no later than fifteen (15) minutes before the FMDQ Exchange advised trading hours.
- 10.5. Transaction Counterparties may respond to requests for quotes and shall be bound by any quotes provided to other Transaction Counterparties.
- 10.6. Transaction Counterparties shall execute all transactions through the cash and securities accounts designated specifically for their trading activities based on the terms stipulated by the Exchange.

## **11. QUOTE MODIFICATIONS AND TRADE CANCELLATION**

- 11.1. Transaction Counterparties may modify existing quotes pending on the System provided such quotes have not been aggressed by another Transaction Counterparty.
- 11.2. Transaction Counterparties may cancel their Repo Transactions executed and/or reported on the System or such other FMDQ Exchange-advised media in accordance with the Erroneous Transaction Cancellation Process outlined in section 12 of these Standards;
  - (i) In addition to the above, Transaction Counterparties are not permitted to cancel more than three (3) trades per Business Day.
  - (ii) Where a Transaction Counterparty exceeds the maximum permissible number of cancellations per Business Day, such Transaction Counterparty shall be penalised accordingly.
- 11.3. The Exchange may also cancel Repo Transactions upon establishment of malpractice or such other circumstance which the Exchange considers likely to pose a risk of Market distortion.

## **12. ERRONEOUS TRANSACTION CANCELLATION PROCESS**

- 12.1. For a Repo Transaction to be cancelled, both parties to the transaction must agree to the cancellation based on the process outlined below:
  - (i) The requesting Counterparty shall initiate a cancellation request on the System or any other FMDQ Exchange-designated medium, while the second Counterparty accepts the request confirming its agreement with the requested cancellation.
  - (ii) All cancellation requests must be accepted before the record is expunged from the respective blotters of the parties to the Repo Transaction.
  - (iii) Transactions may be cancelled only on the date the transaction is executed and before the settlement date of the applicable transaction.

## **13. COLLATERAL MANAGEMENT REQUIREMENTS**

- 13.1. All Transaction Counterparties shall be subject to the Repo Collateral Management Process and attendant guidelines as prescribed by FMDQ Clear from time to time
- 13.2. In order to mitigate Counterparty risk, all Repo Transactions shall be subject to Collateral Management requirements from the dates of execution and as stipulated by the Transaction Counterparties.
- 13.3. Transaction Counterparties may, in conducting their credit risk assessments, stipulate Collateral requirements which their respective Counterparty shall be required to meet in the management of their Repo agreement.

- 13.4. Transaction Counterparties shall be required to substitute Collaterals which mature prior to the Settlement Date of their Repo Transaction with another acceptable Collateral no later than 2:00 PM, five (5) Business Days prior to the maturity date of the Collateral.
- 13.5. Where Transaction Counterparties fail to substitute maturing Collateral in the manner specified in section 13.4, the Settlement Agent shall debit the CBN Operating Account of the relevant Transaction Counterparty or its Settlement Bank for cash, as substitute for the maturing Collateral.
- 13.6. In the process of substituting Collateral for the maturing Collateral, the Transaction Counterparty shall be required to effect the transfer of the substitute Collateral before the release of the securities sought to be substituted.
- 13.7. Where a Transaction Counterparty does not provide adequate Collateral cover, its CBN Operating Account or the CBN Operating Account of its Settlement Bank shall be debited for cash by the Settlement Agent and the cash returned when adequate Collateral is transferred.
- 13.8. On a daily basis (or at agreed intervals), FMDQ Clear shall value all portfolios, calculate Collateral Top-Ups and send Collateral call notifications to the Transaction Counterparties.
- 13.9. FMDQ Clear shall advise Transaction Counterparties of Collateral Top-Ups by close of business on the date of valuation of the Collateral. The Transaction Counterparties and their respective Settlement Banks shall transfer all Collateral by 10:00 AM, the following Business Day.
- 13.10. The Clearing & Collateral Management Agent shall consider the need to advise Transaction Counterparties of Collateral Top-Ups within the day if there has been a major or material market movement.

#### **14. SETTLEMENT**

- 14.1. All Transaction Counterparties shall be subject to the Repo Settlement Process and attendant guidelines as prescribed by the CBN and FMDQ Depository from time to time.
- 14.2. Settlement of transactions shall be on a DvP basis or such other settlement method as may be approved by the Exchange.
- 14.3. Transaction Counterparties shall honour their executed transactions in a timely manner and take steps to ensure that necessary arrangements are made with respect to the cash and securities accounts by the agreed Settlement Dates.

#### **15. PAYMENT NETTING AND SET-OFF**

- 15.1. With the exception of an Event of Default:
  - (i) All amounts payable by each Transaction Counterparty to the other under any Repo Transaction on the same date shall be combined in a single calculation of a net sum payable by one Counterparty to the other. The obligation to pay the net sum shall be the only obligation of either Transaction Counterparty.
  - (ii) All Securities of the same issue, denomination, currency and series, transferable by each Transaction Counterparty or the respective Settlement Bank of a Transaction Counterparty to the other under any Repo Transaction on the same date shall be combined in a single calculation of a net value of Securities transferable by one Counterparty to the other. The obligation to transfer the net value of Securities shall be the only obligation of either Transaction Counterparty or Settlement Bank.

#### **16. RISK & DEFAULT MANAGEMENT**

- 16.1. FMDQ Clear shall carry out intraday and end of day Mark-to-Market procedures using the FMDQ Exchange Daily Quotations List, or such other pricing and valuation source advised by the Exchange, applying such

valuation methods with respect to all transactions and reserves the right to carry out such procedures at higher frequencies when it considers the Market to be volatile.

- 16.2. FMDQ Clear may request for Collateral Top-Ups to cover the risks associated with the transactions executed in the Market.
- 16.3. Where a Transaction Counterparty is unable to respond to requests for Collateral Top-up within the timeframe communicated, the Default Management Process shall be activated with the liquidation of the defaulting party's assets whilst the Exchange shall suspend the defaulting party from trading activities under such conditions as may be communicated from time to time.
- 16.4. Where the defaulting party's assets liquidated are not sufficient to cover the defaulting party's obligations, all necessary steps shall be taken to ensure settlement amounts due are debited from the CBN Operating Account of the defaulting party. In such circumstances, the Transaction Counterparty shall be deemed to be in default and shall be penalised in accordance with the Trading & Reporting Infractions & Penalties Guide.
- 16.5. In the event that a Transaction Counterparty becomes aware that it is likely to fail to deliver Collateral to the other Repo Transaction Counterparty, it must immediately give notice of the imminent failure to the other Transaction Counterparty, the Exchange, the Clearing and Collateral Management Agent and the Settlement Agent.
- 16.6. Where the Repo Buyer is unable to deliver Collateral to the Repo Seller on the Repo Maturity Date, the Repo Transaction shall be closed-out in line with the Default Management Process.

#### **17. EVENTS OF DEFAULT**

- 17.1. Where an Event of Default occurs, the Haircut on all the defaulting Repo Transactions and estimated potential loss amounts, shall be immediately debited to the defaulting party's or relevant Settlement Bank's CBN Operating Account.
- 17.2. Upon the occurrence of an Event of Default, the Exchange shall issue a market notice designating an Early Termination Date for the relevant agreement of the defaulting, upon which the Early Termination Amounts shall be determined.
- 17.3. Upon the occurrence of an Event of Default, the defaulting party's Repo Transaction(s) shall be closed out and terminated, after which all Early Termination Amounts due from/to relevant parties shall be determined and debited/credited to the defaulting/non-defaulting party's CBN Operating Account.

#### **18. FORCE MAJEURE**

- 18.1. Force majeure can be construed in accordance with the provisions of the relevant master agreements executed between Transaction Counterparties.

#### **19. COMPLAINTS MANAGEMENT & DISPUTE RESOLUTION**

- 19.1. In accordance with the FMDQ Complaints Management Framework, Transaction Counterparties shall report all complaints emanating from activities conducted within, or connected to, the FMDQ Exchange markets to the Exchange.
- 19.2. Further to section 19.1, all disputes that arise out of transactions amongst Transaction Counterparties shall be referred to FMDQ Exchange for investigation and adjudication.

## **20. ENFORCEMENT OF THE STANDARDS**

- 20.1. Failure to comply with the provisions of these Standards shall attract one (1) or more of the following penalties, inter alia:
- (i) Warning letters;
  - (ii) Public censure;
  - (iii) Fines;
  - (iv) Suspension from the FMDQ Exchange markets;
  - (v) Revocation of membership licence;
  - (vi) Non-consideration for the FMDQ GOLD Awards;
  - (vii) Report to the regulatory authorities on the activities of the relevant Transaction Counterparty and its Authorised Representatives; and
  - (viii) Such other penalties as may be prescribed in the Infractions and Penalties Guide (as may be amended by FMDQ Exchange from time to time).
- 20.2. All infractions shall be captured in the Members' Compliance Ranking Report published on the FMDQ Exchange website or such other FMDQ Exchange-advised medium.
- 20.3. All infractions shall be reported as part of FMDQ Exchange's monthly report to the relevant regulators.
- 20.4. All fines paid to the Exchange shall be reported in the published annual reports of the non-compliant Transaction Counterparty.
- 20.5. All fines shall be invoiced on a monthly basis or as determined by the Exchange from time to time.
- 20.6. All appeals against penalties imposed in accordance with these Standards shall be conducted in accordance with the FMDQ Exchange Appeal Process for Penalties on Trading Infractions.
- 20.7. Penalties imposed do not constitute a waiver to other disciplinary actions and proceedings as may be prescribed in the Infractions and Penalties Guide (as may be amended by FMDQ Exchange from time to time).