MARKET BULLETIN

FMDQ OTC Securities Exchange
...empowering the Nigerian debt capital & FX markets

August 23, 2016 **FMDQ/MRG/230816/MB-14**

To: **ALL DEALING MEMBER (BANKS) OF FMDQ OTC SECURITIES EXCHANGE**
From: **MARKET REGULATION GROUP**

TREATMENT OF CLIENTS' COLLATERAL MARGINS AND MARGINS DUE TO CLIENTS FOR OTC FX FUTURES CONTRACTS

This Market Bulletin is issued pursuant to the OTC FX Futures Market Operational Standards (the "**Standards**") endorsed by the Central Bank of Nigeria ("**CBN**") on July 27, 2016.

Part A – Treatment of Clients' Collateral Margins

1. Section 5 of the Standards provides that Dealing Member (Banks) ["**DMBs**"] may conduct credit risk assessments of their clients and stipulate margin requirements for their clients in the management of their respective OTC FX Futures contracts.
2. In order to provide a secure market and ultimately protect the end-users of the OTC FX Futures contracts, it is pertinent that the collateral (cash or securities) deposited/pledged by clients is properly ring-fenced and effectively segregated. To this effect, following the no-objection of the CBN, DMBs are hereby notified of the following provisions:
    i. Funds/securities deposited/pledged by clients as collateral for their OTC FX Futures contracts ("**Collateral Margins**") shall not be recognised as customers' deposit liabilities and therefore shall be exempt from all attendant prudential requirements (including but not limited to cash reserve ratio and liquidity ratio) prescribed by the CBN for the treatment of customers' deposit liabilities. Similarly, these Collateral Margins shall not attract deposit insurance premiums.
    ii. Consequently, DMBs shall clearly delineate clients' Collateral Margins by the domiciliation of the applicable margins into "Clients' Collateral Margin Accounts".
    iii. Balances in Clients' Collateral Margin Accounts shall be excluded from the DMBs' total liquid assets for the purpose of liquidity ratio computation.
    iv. Based on the foregoing, DMBs are therefore directed to ensure that the value of all client Collateral Margins is accurately reported on the FMDQ Futures Trading & Reporting System ("**the FFTRS**") as failure to comply will attract the appropriate penalties.

Part B – Treatment of Margins Due to Clients

1. Due to the peculiarity of the current OTC FX Futures quotes, it is likely that some clients may require DMBs to reflect the potential gains on the OTC FX Futures contracts through the creation of margin liabilities. Where such occurs and the margin liabilities are to be maintained in the DMBs' books as 'other liabilities', the applicable margins shall not be treated as customer deposit liabilities and therefore shall be exempt from all attendant prudential requirements (including but not limited to cash reserve ratio and liquidity ratio) prescribed by the CBN for the treatment of bank deposit liabilities.
2. The above-referenced margin liabilities shall not attract deposit insurance premiums.
3. Consequently, DMBs shall clearly delineate such margin liabilities due to the clients in accounts labelled "Clients' Margin Accounts".
4. Balances in Clients' Margin Accounts **shall not** be excluded from the DMBs' total liquid assets for the purpose of liquidity ratio computation.

Please be guided accordingly.

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