

MARKET NOTICE



To: ALL MARKET PARTICIPANTS
From: MARKET DEVELOPMENT GROUP
Reference: FMDQ/MDG/250417/MN-11
Notice Date: APRIL 25, 2017
Effective Date: APRIL 25, 2017

OPERATIONAL MODALITIES FOR LEGACY OTC FX FUTURES CONTRACTS

This Market Notice is issued pursuant to the Central Bank of Nigeria (“CBN”) circular dated April 21, 2017 (Ref: *FMD/DIR/CIR/GEN/08/007*) and titled “*Establishment of Investors’ & Exporters’ FX Window*”.

Further to the introduction of **NAFEX** – the Nigerian Autonomous Foreign Exchange Rate Fixing, all market participants of FMDQ OTC Securities Exchange (“**FMDQ**” or the “**OTC Exchange**”) are hereby notified that all outstanding OTC FX Futures contracts i.e. open contracts of **April 2017 to March 2018** maturities as at **April 18, 2017** (hereinafter called, the “**Legacy OTC FX Futures Contracts**”), shall be settled on either the Nigerian Inter-bank Foreign Exchange Fixing (“**NIFEX**”) or the newly introduced NAFEX Fixing subject to the following conditions:

- (i) **Clients** who are holders of the Legacy OTC FX Futures Contracts shall have the option of which of the abovementioned Fixings (i.e. NIFEX or NAFEX) would be preferred for the settlement of their respective Legacy OTC FX Futures Contracts.
- (ii) **Dealing Member (Banks) (“DMBs”)** who are holders of the Legacy OTC FX Futures Contracts and **clearly demonstrate** the use of the Legacy OTC FX Futures Contracts to cover short positions in the FX market shall also have the option of which of the abovementioned Fixings (i.e. NIFEX or NAFEX) would be preferred for the settlement of their Legacy OTC FX Futures Contracts. Where a DMB holds long positions on the Legacy OTC FX Futures Contracts without having applied same to cover short positions in the FX market, settlement shall be based on NIFEX only.
- (iii) Any settlement option (NIFEX or NAFEX) selected by a market participant holding multiple Legacy OTC FX Futures Contracts shall be applied across all Legacy OTC FX Futures Contracts held by that market participant. Consequently, no market participant holding multiple Legacy OTC FX Futures Contracts shall be permitted to choose more than one (1) settlement option for the clearance of all its Legacy OTC FX Futures Contracts. However, for DMBs, subject to the validation of the application of the Legacy OTC FX Futures Contracts as outlined in clause (ii) above, the OTC Exchange may apply both Fixings in the settlement of their respective Legacy OTC FX Futures Contracts as maybe determined.
- (iv) The settlement options outlined above (i.e. NIFEX or NAFEX) shall be subject to the provisions of clause 6.2 (i) and (ii) of the aforementioned CBN circular. Consequently, holders of Legacy OTC FX Futures Contracts settled using NAFEX shall **NOT** be eligible to source or purchase US Dollars from the CBN FX Window (i.e. Secondary Market Intervention Sales (“**SMIS**”) (Retail or Wholesale) to settle the obligations on the Contracts’ eligible underlying transactions (“**EUTs**”).
- (v) In the interest of clarity, market participants who have partially or fully covered their Spot FX obligation(s) on the Legacy OTC FX Futures Contracts by sourcing from the CBN FX Window (i.e. SMIS (Retail or Wholesale) shall be selected based on NIFEX by default.

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- (vi) Legacy OTC FX Futures Contract holders (including market participants with OTC FX Futures contracts backed by foreign portfolio investments (“FPIs”), foreign direct investments (“FDIs”) & foreign currency loan transactions (“FCY loans”)) shall have a maximum period of forty (40) business days from April 25, 2017, to confirm, in writing, their preferred settlement options to FMDQ.
- (vii) With the exception of Legacy OTC FX Futures Contracts referred to in clause (v) above, all other Contracts without written confirmations of the preferred settlement options received by FMDQ from the respective holders of the Contracts within the 40-business day threshold shall be settled at either NIFEX or NAFEX, depending on the type of the EUTs which formed the basis for the purchase of the Legacy OTC FX Futures Contracts.
- (viii) Where the maturity of a Legacy OTC FX Futures Contract falls within the 40-business day threshold as stipulated in clause (v) above (i.e. **April 26, May 24 & June 21, 2017 Contracts**), settlement shall be effected on the Contracts’ maturity dates based on NIFEX and the settlement process, as provided in the OTC FX Futures Market Operational Standards (the “**Standards**”), shall be applied, unless otherwise advised by the Legacy OTC FX Futures Contract holders’ prior to the maturity of the aforementioned Contracts (i.e. the Contract holders communicate their preference for the NAFEX settlement option prior to the maturity of their attendant Contracts).
- (ix) Clients with matured Legacy OTC FX Futures Contracts who communicate NAFEX as their preferred settlement option after the initial payment of Settlement Amounts as outlined in (vii) above, but prior to the expiration of the 40-business day threshold shall be credited with any differential between the Settlement Amounts paid based on NIFEX and the recalculated Settlement Amounts payable based on NAFEX (where such differential is positive). Where the differential is negative, the applicable amount shall be debited to the Futures DMB’s CBN operating account by the Clearing Agent.
- (x) All confirmed payments of differentials on Settlement Amounts shall be processed within forty-eight (48) hours, upon the fulfilment of the necessary conditions for same, and the conditions precedent to the release of any Settlement Amount (by the DMBs to their Clients) as stipulated in the Standards, shall apply.
- (xi) Clients will be required to provide details/evidence of the source of Spot FX purchase (where applicable), through the respective DMBs with which the relevant Legacy OTC FX Futures Contracts were executed (i.e. the “**Futures DMBs**”), and [the Futures DMBs will] report same via the FMDQ-advised medium where the option to have their Legacy OTC FX Futures Contracts settled at NAFEX is communicated to FMDQ in line with the conditions set out in this Market Notice.
- (xii) Revalidation exercises on Settlement Amounts claims made by Legacy OTC FX Futures Contract holders will be carried out where determined necessary by the CBN and/or FMDQ.
- (xiii) All confirmations of preferred settlement options **by Clients** shall be made through the respective Futures DMBs and communicated via a formal letter stating the Client’s name, RC number (where applicable) and preferred settlement option (NIFEX or NAFEX) along with the following supporting documentation:
- Copy of Clients’ original advice of the preferred settlement option
 - Copy of Clients’ attestation, duly executed by the Managing Director/CEO and Chief Finance Officer, of compliance with the provisions of Clause 6.2(ii) of the aforementioned CBN circular in the event that the NAFEX settlement option is applied to the Clients’ Legacy OTC FX Futures Contracts

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- A letter by the Futures DMB's attesting that due diligence shall be conducted to ensure the Clients whose Legacy OTC FX Futures Contracts are settled with NAFEX at all times maintain compliance with the provisions of Clause 6.2(ii) of the aforementioned CBN circular. However, where the Spot FX transaction is executed by another DMB (i.e. where the Spot FX DMB is not the Futures DMB), the Futures DMB shall obtain an attestation from the Spot FX DMB that the source(s) of the funds applied is/are not in violation of Clause 6.2(ii) of the aforementioned CBN circular
 - A schedule of the Legacy OTC FX Futures Contract(s) in the FMDQ-advised template (a soft copy [MS Excel] of the schedule shall be sent via email to clg@fmdgotc.com)
- (xiv) All confirmations of preferred settlement options **by DMBs** shall be communicated via a formal letter with a schedule of the DMBs' Legacy OTC FX Futures Contract(s) in the FMDQ-advised template. A soft copy (MS Excel) of the schedule shall be sent via email to clg@fmdgotc.com. Where the DMB is not a Futures DMB, the process stipulated in clause (xiii) shall apply. DMBs are also required to provide an attestation, duly executed by the Managing Director/CEO and Treasurer, of compliance with the provisions of Clause 6.2(ii) of the aforementioned CBN circular in the event that the NAFEX settlement option is applied to the DMBs' Legacy OTC FX Futures Contracts.
- (xv) All confirmations of preferred settlement options as outlined in clauses (xiii) and (xiv) above shall be addressed to:
- FMDQ Clearing Group**
1, Olosa Street
Victoria Island
Lagos
- (xvi) Further to the above, in support of the operationalisation of the aforementioned CBN circular and the modalities outlined in this Market Notice, the OTC Exchange shall accommodate the unbundling of Legacy OTC FX Futures Contracts executed by Clients through Custodial and Nominee accounts, in order to apply each individual Clients' preferred settlement option.
- (xvii) This Market Notice shall take effect **immediately**.

Please be guided accordingly.

Should you have any question(s) about this Market Notice, please do not hesitate to contact the FMDQ Market Development Group at mdg@fmdgotc.com.