MARKET BULLETIN

September 5, 2017 **FMDQ/MRG/050917/MB-25**

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

FURTHER CLARIFICATION ON THE TREATMENT OF SETTLEMENT AMOUNTS ON NAIRA-BASED REMITTANCE ELIGIBLE UNDERLYING TRANSACTIONS

1. This Market Bulletin seeks to provide clarification on the calculation of the US Dollar notional amounts and treatment of Settlement Amounts for Naira-settled OTC Foreign Exchange Futures ("**OTC FX Futures**") contracts purchased to hedge foreign exchange ("**FX**") exposures on the following eligible underlying transactions ("**EUTs**"):
   - Dividend Payments
   - International Air Ticket Sales
   - Such other Naira-based remittance EUTs as may be determined by the Central Bank of Nigeria ("**CBN**") from time to time

2. With respect to the transactions outlined above, the US Dollar notional amounts eligible to be hedged using OTC FX Futures shall be calculated as follows:

   Total Eligible Naira Amount ÷ Applicable OTC FX Futures Rate (as at deal date)

3. Consequently, Settlement Amounts shall be calculated on the basis of the full notional US Dollar value of the OTC FX Futures contract as derived in clause 2 above.

4. Therefore, the Total Naira Amounts eligible for hedge shall be supported with the relevant document as listed below:

   i. Audited financial statements/sales report or the applicable statement
   ii. The board or shareholders' resolution (as applicable) approving the amount
   iii. Statement of the Provisional Eligible Underlying Transaction[1] (*where applicable*)
   iv. Such other documentation as may be prescribed by FMDQ from time to time

5. Further to the above, any Settlement Amount gained on an OTC FX Futures contract purchased to hedge the EUTs outlined in clause 1 above, shall be paid to the Futures Dealing Member (Bank) ("**Futures DMB**") only after the Futures DMB has provided evidence that the full Naira value in respect of the EUT has been utilised in the FX market (i.e. evidence of Spot FX purchase amounting to the full Naira value of the OTC FX Futures contract is provided on the FMDQ Futures Trading & Reporting System ("**FFTRS**") or such other FMDQ-advised media[2]).

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[1] *A **Statement of Provisional Eligible Underlying Transaction** is an undertaking signed by the Managing Director/CEO and/or Chief Financial Officer of the prospective Client to the effect that legitimate foreign exchange exposures exist for the purpose of executing OTC FX Futures contracts*

[2] *Please note that the FFTRS is currently being upgraded to include this functionality, as such, DMBs shall be required to provide the required information in the FMDQ-advised template in the meantime.*

6. Subsequently, any Settlement Amount paid, shall be externalised by the Client within one (1) calendar month of the release of the Settlement Amount and reported by the Futures DMB to FMDQ on FFTRS or such other FMDQ-advised media, failing which, the CBN operating account of the Futures DMB shall be debited for the value of the Settlement Amount paid.

7. However, in the event that the Settlement Amount is due from the Client, the Client shall be required to fulfill its obligation and consequently, the Futures DMB's CBN operating account shall be debited for the Settlement Amount upon maturity of the OTC FX Futures contract.

8. Furthermore, Futures DMBs are advised to margin their Clients, who are holders of OTC FX Futures contracts, on a daily basis.

9. Further details on the reporting process for the above-referenced transactions shall be communicated, as relevant, in due course.

Please be guided accordingly.

Should you have any further clarification/information with respect to this Market Bulletin, please do not hesitate to contact the Market Regulation Group at mrg@fmdqotc.com.