

MARKET BULLETIN



February 12, 2020

FMDQ/MRG/120220/MB-37

To: **ALL DEALING MEMBER (BANKS)**
 From: **MARKET REGULATION GROUP**

INTRODUCTION OF LONG-TERM NAIRA-SETTLED OTC FX FUTURES CONTRACTS

1. This Market Bulletin serves to notify all Dealing Member (Banks) (“**DMBs**”) of FMDQ Securities Exchange Limited (“**FMDQ Exchange**” or the “**Exchange**”) of the introduction of long-term monthly Naira-settled OTC FX Futures contracts i.e. monthly contracts from fourteen (14) months up to five (5) years.
2. Under the current OTC FX Futures market structure, the Central Bank of Nigeria (“**CBN**”) offers 13-monthly contracts which provide hedging opportunities over a one-year period. However, foreign investors and long-term borrowers, specifically, seeking to hedge long-term foreign exchange (“**FX**”) risk exposures are unable to achieve this seamlessly using the OTC FX Futures market. This is particularly due to the unavailability of varied monthly OTC FX Futures contracts over one (1) year.
3. Consequently, in line with its market development mandate, FMDQ Exchange hereby notifies the market of CBN’s approval of the introduction of monthly OTC FX Futures contracts for up to five (5) years, commencing February 13, 2020.
4. This implies that forty-seven (47) new monthly OTC FX Futures contracts, in addition to the existing thirteen (13) contracts will be introduced from February 13, 2020, bringing the total number of open OTC FX Futures contracts at any point to sixty (60).
5. For the sake of clarity, please note the following:
 - (i) The above-mentioned provisions are applicable strictly to the following eligible underlying transactions:
 - foreign portfolio investments (“**FPI**”) [*including investments by resident/non-resident Nigerian nationals and entities*]¹
 - foreign direct investments (“**FDI**”)
 - foreign currency (“**FCY**”) loans
 - (ii) The provisions stated in Section 7 of the OTC FX Futures Market Operational Standards (the “**Standards**”) on externalisation of proceeds still apply.
 - (iii) Due to current market dynamics, existing FPI, FDI and FCY loan transactions executed prior to the effective date of this Market Bulletin (Wednesday, February 12, 2020), will not qualify for purchase of the 14-month to 60-month OTC FX Futures contracts offered by the CBN. Only new or incremental FX exposures arising from FPI, FDI and FCY loans evidenced by valid Certificates of Capital Importation (“**CCIs**”) shall qualify for hedging with the long-term OTC FX Futures contracts (i.e. tenors of fourteen (14) months up to sixty (60) months).
 - (iv) Purchase of long-term OTC FX Futures contracts for FPI, FDI and FCY loan transactions executed prior to February 12, 2020 shall be permitted strictly on a case-by-case basis following the express approval of the CBN.
 - (v) OTC FX Futures contracts are subject to Initial Margin requirements (*See Appendix 1 for Initial Margin Requirements for Futures Banks*). The Initial Margin requirements are subject to regular

¹ See CBN Circular TED/FEM/FPC/GEN/01/009 – Portfolio Investment in Nigeria. RE: Amendment of Memorandum 21 of the Foreign Exchange Manual - dated September 6, 2016

MARKET BULLETIN



review and update as may be determined by FMDQ Clear Limited (“FMDQ Clear”). Revisions and updates to the Initial Margin requirements will be communicated on www.fmdqgroup.com or via any suitable medium as selected by FMDQ Clear.

6. This Market Bulletin shall take effect immediately and shall be read in conjunction with the Standards and such other OTC FX Futures market-related documentation.

Please be guided accordingly.

MARKET BULLETIN



APPENDIX 1 – OTC FX FUTURES INITIAL MARGIN REQUIREMENTS FOR FUTURES BANKS (AS AT 12/2/2020)

Contract Tenor(s)	Initial Margin Requirement (Futures Banks)
≤ 13M	5% of the Naira equivalent of the contract notional amount
>13M – 24M	10% of the Naira equivalent of the contract notional amount
>24M – 36M	15% of the Naira equivalent of the contract notional amount
>36M – 48M	20% of the Naira equivalent of the contract notional amount
>48M – 60M	20% of the Naira equivalent of the contract notional amount

M – month(s)

****Initial Margin requirements are subject to change as may be determined by FMDQ Clear from time to time.***