FMDQ
OTC Securities Exchange

OTC FX Futures Market Operational Standards

August 16, 2018

Contents

DEFINITIONS

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in these OTC FX Futures Market Operational Standards:

"**Applicable Law**"	means any law, statute, code, ordinance, decree, rule or regulation (including rules and regulations of self-regulatory organisations) as may relate to activities within the OTC FX Futures market (as may be revised, updated and/or amended from time to time).
"**Authorised Representatives**"	mean employees authorised by Dealing Member (Banks) and the CBN to perform activities on their behalf on FMDQ OTC Securities Exchange. Authorised Representatives include but are not limited to treasurers, dealers, compliance officers, treasury operations staff, treasury sales staff, risk officers and control & audit staff.
"**CBN**"	Central Bank of Nigeria.
"**Certificate of Capital Importation**" or "**CCI**"	means a document which serves as evidence that foreign currency has been remitted to Nigeria, and **converted into Nigerian Naira**, for the purpose of investments in Nigeria.
"**Clearing Agent**"	means FMDQ Clear Limited ("**FMDQ Clear**") or such other clearing agent as may be designated by FMDQ.
"**Clients**"	mean end-users of the products traded on the FMDQ Platform, including but not limited to institutional investors, foreign portfolio investors, asset/fund managers, corporate and commercial institutions, pension fund administrators and individuals.
"**Close-Out Amount**"	means the amount of loss or gain to the non-defaulting party in the Event of Default which would be determined at the Early Termination Date in accordance with the FMDQ OTC FX Futures Close-Out Methodology.
"**Collateral Margin**"	means assets (pledged securities or cash) provided to the Clearing Agent for the purpose of margining on the OTC FX Futures contracts.
"**Custodian**"	means a Securities and Exchange Commission ("**SEC**")-licenced institution which has custody as a bailee of securities purchased with the CBN's Collateral Margin.
"**Daily Margin Report**"	means the report published on the FFTRS (or such other FMDQ-advised medium) which shows the open OTC FX Futures contracts of the Trading Counterparties, potential gains or losses on the open contracts and the Trading Counterparties' compliance levels with the various Margin requirements. This report is also referred to as the Daily Exposure Report.
"**Dealing Member (Banks)**" or "**DMBs**"	mean CBN-licenced banks admitted by FMDQ to make market in securities/instruments and products listed, quoted and traded on the Exchange. DMBs shall also act as Settlement Banks for OTC FX Futures

contracts.

"**Early Termination Amount**" means an amount equal to the sum of the Unpaid Amounts (inclusive of interest) and the Close-Out Amount with respect to OTC FX Futures contracts 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 the declaration of an Event of Default so designated by the Exchange as the date in which all transactions of a defaulting DMB would be closed out and Early Termination Amounts determined.

"**Eligible Collateral**" means cash, Federal Government of Nigeria ("**FGN**") securities such as FGN bonds and Nigerian treasury bills, CBN bills and any such other asset/instrument as may be determined by FMDQ.

"**Event of Default**" or "**EOD**" for the purpose of OTC FX Futures contracts executed in the Nigerian inter-bank FX market, an Event of Default shall be strictly construed, notwithstanding anything to the contrary, to mean such event as may be declared by FMDQ as an Event of Default, and will be limited to the following:

i. Regulatory action against a DMB that would affect its viability as a going concern.

ii. A DMB commences a voluntary case or other procedure seeking or proposing liquidation, reorganisation, an arrangement or composition, a freeze or moratorium or other similar relief with respect to it or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law, or seeking the appointment of a receiver, liquidator, conservator, administrator, custodian, examiner, trustee or other similar official (each a "**custodian**") of it or any part of its assets; or if it takes any corporate action to authorise any of the foregoing; and, in the case of a reorganisation, arrangement or composition, the other party or parties do not consent to the proposals.

iii. An involuntary case or other procedure is commenced against a DMB seeking or proposing reorganisation, or an administration order, liquidation, an arrangement or composition, a freeze or moratorium or other similar relief with respect to it or its debts under any bankruptcy, insolvency, regulatory, supervisory or similar law (including any corporate or other law with potential application to it if insolvent) or for the appointment of a Custodian of it or any part of its assets.

iv. A DMB is unable to pay its debts as they fall due or is bankrupt or insolvent, as defined under any bankruptcy or insolvency law applicable to it; or any indebtedness of it is not paid on the due date or becomes capable at any time of being declared due and payable under agreements or instruments evidencing such indebtedness before it would otherwise have been due and payable, or proceedings are commenced for any execution, any attachment or garnishment, or any distress against, or an encumbrancer takes possession of, the whole or any part of the DMB's property, undertaking or assets (tangible and intangible).

v. A DMB is dissolved, or, if its existence is dependent upon a form of registration, such a registration is removed or ends, or any procedure is commenced seeking or proposing its dissolution or the removal or ending of such a registration, or regulatory action is being taken.

vi. Consolidation or amalgamation with or mergers or acquisitions of property, undertaking or assets of a DMB which negatively impacts on the ability of the DMB to meet its obligations under its OTC FX Futures contract(s).

vii. A DMB has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained at the time which an Event of Default is declared by the Exchange.

"**FMDQ**" or "**the Exchange**" — FMDQ OTC Securities Exchange

"**FMDQ Complaints Management Framework**" — means the framework developed by FMDQ to address complaints arising out of issues that are covered under the FMDQ Rules, made pursuant to the Investments and Securities Act 2007 ("**ISA**"), and the SEC Rules and Regulations 2013 (as amended) and other issues that arise in respect of activities conducted within the markets which FMDQ organises - i.e. over-the-counter ("**OTC**") debt capital, currency, derivatives markets, *inter alia* - (the "**FMDQ markets**"). The FMDQ Complaints Management Framework is published on the FMDQ website.

"**FMDQ OTC GOLD Awards**" — means the recognition of exceptional performance on the FMDQ Platform, exemplary compliance with FMDQ Rules, guidelines and other regulation as well as outstanding contribution to the Nigerian OTC market.

"**Form A**" — means an application form used by Clients to purchase foreign currency for the purpose of fulfilling foreign currency payment obligations in invisible trades/transactions.

"**Form M**" — means an application form used by Clients to purchase foreign currency for the purpose of fulfilling foreign currency payment obligations in visible trades/transactions.

"**Futures DMB**" — means a DMB that executes an OTC FX Futures contract with a Client.

"**Futures Market Fraud**" — includes but is not limited to the following:

i. Price Distortion/Manipulation: The act of deliberately altering the price of OTC FX Futures contracts.

ii. Pre-Arranged Trading: The act of buying and selling of OTC FX Futures contracts between Trading Counterparties at a pre-agreed price different from prevailing market price.

iii. Fictitious Trading: Wash trading, bucketing or other schemes which give the appearance of trading whereas, no bona fide, competitive trade has occurred.

iv. Wash Trading: The act of entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without resulting in a change in the Transaction Counterparty's position.

v. Front Running: The act of taking positions on an OTC FX Futures contract based on advanced knowledge of non-public information about an impending transaction in the same or related OTC FX Futures contract, obtained from Transaction Counterparties, Clients or third parties.

vi. Bucketing: The act of directly or indirectly taking the opposite side of a Client's order into position or into an account in which a DMB has an interest, without open and competitive execution of the order on an exchange.

vii. Such other activities as may from time to time be classified by FMDQ as Futures Market Fraud or as may be determined by Applicable Law.

"**Initial Margin**" means the value of Eligible Collateral determined by the Clearing Agent on the basis specified by FMDQ and held in respect of the aggregate positions of Transaction Counterparties to mitigate counterparty risk which may be associated with OTC FX Futures contracts.

"**Maintenance Margin**" means the minimum amount of Eligible Collateral that must remain in the Margin account of Transaction Counterparties at any point during the life of an OTC FX Futures contract.

"**Margin**" means Eligible Collateral in the form of either Initial Margin, Variation Margin, Maintenance Margin, or such other margin as may be determined by FMDQ and/or the Clearing Agent.

"**Nigerian Autonomous Foreign Exchange Rate Fixing**" **or** **"NAFEX"** means a fixing of the US Dollar to Nigerian Naira exchange rate calculated by FMDQ.

"**NMFA**" Nigerian Master Foreign Exchange Agreement

"**OTC FX Futures**" means Naira-settled non-deliverable forward contracts where parties agree to an exchange rate for a predetermined date in the future, without the obligation to deliver the underlying currencies (US Dollar and Nigerian Naira) on the maturity/settlement date. OTC FX Futures contracts traded on the FMDQ Platform shall be settled on NAFEX in Nigerian Naira.

"**OTC FX Futures Resolution Account**" means a designated account with the Clearing Agent where unapplied and returned Settlement Amounts are held temporarily pending resolution of issues relating to OTC FX Futures transactions.

"**OTC FX Futures Market Infractions and Penalties Guide**" means guidelines made pursuant to these Standards, providing a nonexhaustive documentation of infractions and the attendant penalties for non-compliance with the provisions of the Standards.

"**Platform**"	means the FMDQ-organised market place for the registration, listing, quotation, order execution, and trade reporting of fixed income, currency and derivative products/instruments, *inter alia*.
"**Settlement Bank**"	means a DMB which assumes the responsibility, as a result of executing OTC FX Futures contracts with its Clients and/or on its own account, for the clearing and settlement of such contracts.
"**Settlement Amount**"	means the differential between the OTC FX Futures contract rate and the NAFEX rate on the settlement date of the contract.
"**Spot FX**"	means an agreement between two (2) parties to buy one (1) currency while selling another currency at an agreed price for settlement on the spot date (i.e. within a period of 0 – 5 business days). The exchange rate at which the transaction is executed is referred to as the spot exchange rate.
"**Spot FX DMB**"	means a DMB that executes a Spot FX trade with a Client for the purpose of fulfilling the Client's obligation which formed the basis for the hedging with the OTC FX Futures contract.
"**SWIFT**"	means a standardised communications platform used to facilitate the transmission of data about financial transactions. Such information includes (but is not limited to) confirmation of trades.
"**the FFTRS**"	The FMDQ Futures Trading & Reporting System
"**Trade DMB**"	means the DMB holding the eligible underlying transaction documents for the Client seeking to enter into an OTC FX Futures contract.
"**Transaction Counterparties**"	mean, in the context of an OTC FX Futures transaction (a) the CBN and a DMB (b) a DMB and a DMB, as may be appropriate.
"**Unpaid Amounts**"	mean amounts owed to or by a non-defaulting party with respect to an OTC FX Futures contract, being due and payable from the execution of the contract and up to the Early Termination Date.
"**Variation Margin**"	means the amount of Margin payable by a counterparty as a result of the marking-to-market of positions in its OTC FX Futures contracts in order that the balance in the counterparty's Margin account returns to the Initial Margin requirement.

1. GENERAL STANDARDS

1.1. OTC FX Futures shall be utilised by Clients solely for foreign exchange risk management purposes and shall not be used as a mechanism for speculation, trading or such other purposes as may be prohibited by the CBN and FMDQ.

1.2. OTC FX Futures contracts shall be bought or sold by the CBN and DMBs, subject to the DMBs' Foreign Currency Trading Position Limits ("**FCTPL**"). DMBs may also trade OTC FX Futures contracts amongst themselves and with Clients.

1.3. All OTC FX Futures contracts shall be traded on the FFTRS, and all relevant information (including the status of the relevant Spot FX transactions) shall be updated to the FFTRS or such other FMDQ-advised medium within ten (10) business days of the maturity of the OTC FX Futures contracts. Additionally, the report on the utilisation of the attendant Spot FX transactions shall also be updated to the FFTRS or such other FMDQ-advised medium within five (5) business days of the execution of the Spot FX transaction.

1.4. To aid its surveillance function, the CBN shall have access to the FFTRS.

1.5. The minimum transaction amount that can be executed on the FFTRS between Transaction Counterparties shall be $500,000.00 (five hundred thousand US Dollars). However, DMBs may execute lower transaction amounts with their Clients.

1.6. To encourage competitiveness in the pricing of the OTC FX Futures market, Clients shall be allowed to execute their OTC FX Futures transactions with their preferred DMB and shall not be compelled to hedge with the DMB holding their trade/transaction supporting documents or where the Spot FX purchase/sale shall be transacted.

1.7. All OTC FX Futures transactions shall be conducted in accordance with such contract specifications as may be prescribed by FMDQ from time to time.

1.8. DMBs are expected to adopt the highest levels of professionalism in the execution and administration of all OTC FX Futures transactions. Any attempt by DMBs to hinder Clients' transactions or unnecessarily delay required transaction updates to the FFTRS or such other FMDQ-advised medium shall be considered an infraction and attract such penalties as provided in the OTC FX Futures Market Infractions and Penalties Guide.

1.9. DMBs shall be responsible for the clearing and settlement of all OTC FX Futures transactions (including transactions executed with Clients) and the controls and obligations associated with such transactions.

1.10. OTC FX Futures contracts shall be bought and sold in non-standardised amounts.

1.11. All OTC FX Futures contracts shall be held to maturity subject to the exceptions provided in section 6.

1.12. DMBs shall not buy or sell OTC FX Futures contracts previously sold to or bought from Clients subject to the exceptions provided in section 6.

1.13. Spot FX may be purchased by Clients around (i.e. before, at or after) the maturity of the corresponding OTC FX Futures contract. However, the purchase of Spot FX before maturity shall be subject to the following provisions:

(i) Spot FX may be purchased no longer than ten (10) business days prior to the maturity of one (1) month OTC FX Futures contracts.

(ii) Spot FX may be purchased no longer than twenty (20) business days prior to the maturity of OTC FX Futures contracts with tenors longer than one (1) month.

(iii) Where the Client purchases Spot FX earlier than the timeframe stated in section 1.13 (i) or (ii), it shall be presumed that a legitimate hedge no longer exists, as such the Client's OTC FX Futures contract shall be deemed to be cancelled and the provisions of section 6.2 with regards to cancellation of OTC FX Futures contracts, will take effect.

1.14. Further to section 1.13, the purchase of Spot FX after the maturity of OTC FX Futures contracts shall be subject to the provisions of section 4.

1.15. The standard currency pair for trading in the OTC FX Futures market shall be the US Dollar to the Nigerian Naira ($/₦).

1.16. In order to aid seamless processing of transactions in the OTC FX Futures market, FMDQ, based on the mandate assigned in the agreements executed with CBN and DMBs, shall issue confirmations to Transaction Counterparties upon execution of each contract.

1.17. The CBN shall have the right to suspend the participation of any DMB in the OTC FX Futures market.

1.18. All Transaction Counterparties shall refrain from engaging in any activities classified as Futures Market Fraud within its meaning provided in these Standards.

1.19. These Standards shall be read in conjunction with the *OTC Foreign Exchange Futures Market Framework*, relevant CBN Circulars and Guidelines on the OTC FX Futures market, FMDQ OTC Market Bulletins, and FMDQ OTC Market Notices made pursuant to the Standards.

2. ELIGIBLE TRANSACTIONS

2.1. In line with the CBN *Revised Guidelines for the Operation of the Nigerian Inter-Bank Foreign Exchange Market (June 2016)*, DMBs are permitted to apply Spot FX transactions to hedge OTC FX Futures, as such, DMBs' OTC FX Futures transactions are not required to be trade-backed. However, DMBs' OTC FX Futures transactions shall be recorded in their trading blotters and therefore be part of their FCTPL.

2.2. All Clients' OTC FX Futures transactions must be backed by eligible underlying transactions i.e. visible/invisible transactions subject to the following conditions:

(i) The OTC FX Futures must be utilised for the purpose of hedging foreign exchange risk in such eligible underlying transactions.

(ii) The eligible underlying transaction must be supported by the appropriate documentation as required by FMDQ and the CBN from time to time.

(iii) Transactions with matured obligations shall not qualify as eligible underlying transactions for OTC FX Futures contracts as they do not present any legitimate future FX exposure to be hedged.

2.3. The following transactions with attendant FX exposures shall be deemed as eligible underlying transactions for the purpose of executing OTC FX Futures contracts:

(i) Fixed income and listed/quoted equity investments.

(ii) Long-term investments e.g. foreign direct investments (FDI). Capital hedges shall be restricted to the longest-tenored OTC FX Futures contract.

(iii) Dividend payments duly reported in the latest audited annual report and accounts of the entity, evidenced by a Board Resolution of the entity.

(iv) Foreign currency (FCY) loans (evidenced by a currency conversion and the attendant Certificate of Capital Importation) and attendant interest amounts. Hedges for FCY loan amounts shall also be restricted to the longest-tenored OTC FX Futures contract while their attendant interest amounts must be matched with the contract's maturity date.

(v) Airline remittances.

(vi) Import transactions, letters of credit (confirmed and unconfirmed) and bills for collection.

(vii) Write-offs on FCY loans or provisions on non-performing FCY loans.

(viii) Such other eligible underlying transactions as may be permitted by the CBN including 'Miscellaneous Payments' as detailed under Memorandum 15 of the CBN Foreign Exchange Manual.

2.4. In line with market dynamics, FMDQ (endorsed by the CBN) may from time to time suspend the eligibility of certain underlying transactions for the purpose of executing OTC FX contracts.

2.5. All transactions expressly prohibited by the CBN from accessing the Nigerian FX market shall not be eligible underlying transactions for OTC FX Futures.

3. DOCUMENTATION AND OTHER TRANSACTION REQUIREMENTS

3.1. The documentation requirements for OTC FX Futures shall depend on the nature of the transaction and the stage of the transaction cycle i.e. point of execution of the OTC FX Futures contract, between execution and settlement, and point of maturity/settlement of the OTC FX Futures contract.

3.2. **Visible Transactions**

For visible transactions, the minimum requirements at the point of trade are as follows:

(i) Letters of Credit (LCs)

(a) Registered Form M(s) (which may be substituted). The maturity of the OTC FX Futures contract shall not exceed the expiry date(s) of the attendant registered Form M(s).

(b) Pro forma invoice.

(c) Marine insurance.

(d) LC Application.

(e) Statement of provisional eligible underlying transaction signed by the Managing Director/Chief Executive Officer and/or Chief Financial Officer of the Client (DMBs may secure global undertakings from Clients with respect to their OTC FX Futures transactions).

(f) Such other documentation as may be required by CBN and FMDQ from time to time.

(ii) Bills for Collection

(a) Registered Form M(s) (which may be substituted). The maturity of the OTC FX Futures contract shall not exceed the expiry date(s) of the attendant registered Form M(s).

(b) Evidence of shipment – Bill of Lading, final invoice or Confirmed Certificate of Value and Origin ("**CCVO**") and an accepted Bill of Exchange.

(c) Statement of provisional eligible underlying transaction signed by the Managing Director/Chief Executive Officer and/or Chief Financial Officer of the Client (DMBs may secure global undertakings from Clients with respect to their OTC FX Futures transactions).

(d) Such other documentation as may be required by CBN and FMDQ from time to time.

3.3. **Invisible Transactions**

For invisible transactions (excluding evidenced foreign portfolio investments in fixed income, listed/quoted equities and other assets that may require capital hedge), the minimum requirements at the point of trade are as follows:

(i) Registered Form A(s).

(ii) Invoice/demand note (where applicable).

(iii) Certificate of Capital Importation (where applicable).

(iv) Statement of provisional eligible underlying transaction signed by the Managing Director/Chief Executive Officer and/or Chief Financial Officer of the Client (DMBs may secure global undertakings from Clients with respect to their OTC FX Futures transactions).

(v) Statement confirming write-off of FCY loans or provisions on FCY non-performing loans (NPLs) signed by the Managing Director/Chief Executive Officer and/or Chief Financial Officer of the Client (where applicable).

(vi) CBN approval of FCY loan write-offs (where applicable).

(vii) CBN-acknowledged copy of notification of provisions for FCY NPLs.

(viii) All documentation as detailed under Memorandum 15 of the CBN Foreign Exchange Manual for applicable 'Miscellaneous Payments'.

(ix) Such other documentation as may be required by CBN and FMDQ from time to time.

3.4. **Evidenced Foreign Portfolio Investments in Fixed Income and Listed/Quoted Equity Investments and Other Assets**

(i) For evidenced foreign portfolio investments, the Futures DMB shall, at the point of trade, update the details of the supporting documents unto the FFTRS or such other FMDQ-advised medium, which shall be confirmed, on the FFTRS or such other FMDQ-advised medium by the Trade DMB. The Trade DMB may also be the Futures DMB.

(ii) Further to section 3.4 (i), where the investment capital is a new FCY inflow, the Futures DMB may execute the OTC FX Futures contract with minimum documentation such as the SWIFT confirmation of the inflow and update same to FFTRS or such other FMDQ-advised medium. Subsequently, the Trade DMB shall, within three (3) business days of the eligible underlying transaction, update the FFTRS or such other FMDQ-advised medium with the following details:

(a) Certificate of Capital Importation confirming exchange of foreign currency to Nigerian Naira.

(b) Other valid capital importation documentation and such other documentation as may be prescribed by CBN and FMDQ from time to time.

(iii) CCIs for foreign currency loans that are not converted to Nigerian Naira are not valid documentation to support OTC FX Futures contracts.

3.5. **Exports**

Hedging for export proceeds shall be subject to the following minimum requirements:

(i) Nigerian Export Promotion Council ("**NEPC**") Registration Certificate.

(ii) Nigerian Export Proceeds ("**NXP**") Form.

(iii) Pro-forma Invoice.

(iv) Sales Contract/Agreement.
(v) Confirmation of likely date of receipt of export proceeds.
(vi) Such other documentation as may be required by CBN and FMDQ from time to time.

4. SETTLEMENT

4.1. All Settlement Amount(s) shall be credited to the CBN operating account of the Futures DMB by the Clearing Agent no later than 4:00 PM on the settlement date of the OTC FX Futures contract(s), which shall be the fixing date.

4.2. At the maturity/settlement of the OTC FX Futures contract, the Futures DMB shall act in accordance with the following provisions:

(i) Prior to releasing any Settlement Amount to the Client, the Futures DMB shall ascertain that the FFTRS or such other FMDQ-advised medium has been updated with all the requisite information, and complete documentation required for the application of the Spot FX transaction for the purpose of fulfilling the Client's obligation under the eligible underlying transaction (including but not limited to information obtained from the Spot FX DMB, where the Futures DMB is different from the Spot FX DMB).

(ii) Having obtained evidence that the Client has provided relevant and complete documentation indicating the application of the Spot FX as in 4.2 (i), the Futures DMB shall, within one (1) business day of receipt of any Settlement Amount, transfer the relevant Settlement Amount to the Client and immediately update same on FFTRS or such other FMDQ-advised medium. Failure by the Futures DMB to transfer the Settlement Amount to the Client on the stipulated date shall be deemed an infraction and attract such penalties as provided in the OTC FX Futures Market Infractions and Penalties Guide.

(iii) The Futures DMB shall also update the FFTRS or such other FMDQ-advised medium with details of the immediate release of Clients' margins on maturity of their OTC FX Futures contracts.

4.3. All Settlement Amounts that have not been released to Clients within ten (10) business days of the maturity of the OTC FX Futures contract, due to failure to provide the necessary and complete documentation as in section 4.2., shall be debited to the Futures DMB's CBN operating account by the Clearing Agent and transferred to the OTC FX Futures Resolution Account.

4.4. Further to section 4.3, all such unreleased Settlement Amounts shall be domiciled in the OTC FX Futures Resolution Account with the Clearing Agent until a final decision is made by FMDQ on the application of the funds. The Futures DMBs may apply to FMDQ for the release of the Settlement Amounts at any point prior to the final decision on the application of the funds.

4.5. Where the OTC FX Futures contract value is higher than the applicable Spot FX value, the Settlement Amount released by the Futures DMB shall be calculated on a pro-rata basis and the balance debited to the Futures DMB's CBN operating account and transferred to the OTC FX Futures Resolution Account with the Clearing Agent.

4.6. The FX utilisation date shall be updated to the FFTRS or such other FMDQ-advised medium by the Trade DMB within five (5) business days of the date of the execution of the Spot FX transaction.

4.7. Where an LC is cancelled or partially utilised after the booking of the LC cash collateral (i.e. the cycle of the OTC FX Futures contract purchased to hedge the eligible underlying transaction is completed), and the foreign currency is returned to the Trade DMB for repurchase, the Trade DMB shall promptly update FFTRS or such other FMDQ-advised medium with this information. Additionally, the applicable Settlement Amount on the OTC FX Futures contract purchased, which had previously been released to the Client, shall be debited to the Trade DMB's CBN operating account on a pro-rata basis and transferred to the OTC FX Futures Resolution Account.

4.8. Further to section 4.7, and where the Client was credited with a Settlement Amount, the Trade DMB repurchasing the foreign currency shall debit the Client's account for the pro-rated Settlement Amount and credit the Client's account with the Naira-equivalent of the repurchased foreign currency.

4.9. Where suspicion is raised *via* complaints, anonymous tips, inspections, FMDQ and CBN examinations, etc., which may put the integrity of the release of any Settlement Amount into question, an investigation shall be carried out by FMDQ.

4.10. Further to section 4.9, the relevant Futures DMB shall be informed that an investigation is being carried out. Additionally, the full value of the Settlement Amount shall be debited to the CBN operating account of the relevant Futures DMB and held by the Clearing Agent in the OTC FX Futures Resolution Account, pending the outcome of the investigation by the Exchange.

4.11. At the end of the investigation, the application of all Settlement Amounts that are the subject of any investigation shall be advised to the Futures DMB.

4.12. Where the investigation reveals evidence of Futures Market Fraud, unethical conduct, suspicious transactions and market manipulations, the erring DMB(s) shall be penalised in line with FMDQ's disciplinary process, and the findings may be transmitted to relevant authorities, where applicable.

5. MARGIN REQUIREMENTS

5.1. In order to mitigate counterparty risk, all OTC FX Futures contracts shall be subject to margin requirements as FMDQ and the Clearing Agent shall prescribe from the dates of execution up until the settlement dates of the contracts. DMBs shall therefore operate Margin accounts with the Clearing Agent and shall be required to pledge/deposit Eligible Collateral as may be required by FMDQ and the Clearing Agent.

5.2. In line with section 5.1, DMBs may, in conducting their credit risk assessments of Clients, stipulate margin requirements which their respective Clients shall be required to meet in the management of their OTC FX Futures transactions.

5.3. DMBs should however note that all transactions with Clients will be subject to the standard margin requirements prescribed by FMDQ and the Clearing Agent, or the DMBs' stipulated margin requirements for the respective Clients, whichever is higher. Consequently, DMBs are required to report the value of Initial and Variation Margins received for each Client trade on the day the Margin is obtained on the FFTRS. DMBs are also required to, update on the FFTRS, details of the return of Clients' attendant Margins on matured OTC FX Futures contracts.

5.4. DMBs shall be required to substitute pledged securities which mature prior to settlement date of their OTC FX Futures contracts with another Eligible Collateral no later than 2:00 PM, five (5) business days prior to the maturity date of the pledged securities.

5.5. Where DMBs fail to substitute maturing pledged securities in the manner specified in section 5.4, the Clearing Agent shall debit the CBN operating accounts of the relevant DMBs for cash, as substitute for the maturing pledged securities.

5.6. In the process of substituting securities for Eligible Collateral, DMBs shall be required to effect the pledge of the substitute Eligible Collateral before the release of the securities sought to be substituted.

5.7. Where a DMB does not provide adequate collateral cover, its CBN operating account shall be debited for cash by the Clearing Agent and the cash returned when adequate collateral is pledged.

5.8. All OTC FX Futures contracts shall be valued daily for the potential gains/losses and updates of the daily valuations shall be provided in the Daily Margin Report.

5.9. Pledged securities shall also be valued on a daily basis, and Variation Margin calls shall be made by the Clearing Agent to the relevant DMBs where the value of the pledged securities fall below the Maintenance Margin.

6. EXCEPTIONS

6.1 **Evidence of Spot FX on Maturity Date (For Evidenced Investments & FCY Loans)**

(i) FDIs, FPIs and FCY loan obligors shall be exempt from the requirement to provide evidence of Spot FX transactions on the maturity of OTC FX Futures contracts and shall be credited the Settlement Amounts on the maturity of the contracts. However, the Trade DMBs shall update the FFTRS or such other FMDQ-advised medium, providing evidence of the validity of the CCIs at maturity. Subsequently, the Futures DMBs shall ascertain the validity of the CCIs prior to the release of the Settlement Amounts to the Clients. CCIs not valid at the point of maturity of any OTC FX Futures contract will render the underlying transaction ineligible and consequently any Settlement Amount due to the Client will be forfeited and not released. In the event that the Settlement Amount is due from the Client, however, the Client will be required to fulfill its obligation and consequently, the Futures DMB's CBN operating account shall be debited for the Settlement Amount.

(ii) Further to section 6.1 (i), the Futures DMB shall be required to update the FFTRS or such other FMDQ-advised medium with the date of the release of the Settlement Amount accordingly. All unreleased Settlement Amounts will be debited to the Futures DMB's CBN operating account and transferred to the OTC FX Futures Resolution Account with the Clearing Agent.

6.2. Transfer of OTC FX Futures Contracts

(i) Transfers of Clients' OTC FX Futures contracts to other Clients prior to maturity may occur only under the following circumstances:

(a) Where an eligible underlying transaction (visible or invisible) is cancelled.

(b) Where an eligible underlying transaction (visible or invisible) is extended.

(c) Where a circumstance occurs which would otherwise lead to the early termination of an OTC FX Futures contract but which does not qualify as an Event of Default within the definition provided in these Standards.

(d) Where an Event of Default occurs, subject to the provisions of section 6.3

(e) Such other circumstances as may be prescribed by the Exchange from time to time.

(ii) Consequently, to transfer an OTC FX Futures contract, the Futures DMB shall simultaneous book a purchase and a sale of the relevant contract to be transferred to ensure the entries produce a nil effect on its position

(iii) Further to section 6.2 (i), where the contract cannot be transferred prior to its maturity, the settlement process shall still be effected. Consequently, in the event that the OTC FX Futures contract is at a loss, the Futures DMB's CBN operating account shall be debited for the Settlement Amount. Where the contract gains, the Settlement Amount shall not be released to the Futures DMB, but be transferred to the OTC FX Futures Resolution Account with the Clearing Agent for determination of the application of the funds.

6.3. Event of Default

(i) Where an Event of Default occurs, the cash-equivalent of the Initial Margin requirement on all the defaulting DMB's open contracts, and estimated potential loss amounts, shall be immediately debited to the DMB's CBN operating account by the Clearing Agent.

(ii) Upon the occurrence of an EOD, FMDQ shall issue a market notice designating an Early Termination Date for the relevant open contracts of the defaulting DMB, upon which the Early Termination Amounts shall be determined.

(iii) With respect to the defaulting DMB's open contracts executed with Clients, such Clients shall have the following options:

(a) Close-out of their relevant contracts in accordance with the FMDQ OTC FX Futures Close-Out Methodology.

(b) Transfer of OTC FX Futures contract(s) to a substitute DMB(s) on such terms as may be negotiated between the Client and the substitute DMB. Such transfers are subject to the following conditions:

(i) The transfer shall be completed within ten (10) business days of the declaration of an Event of Default. Where the Client is unable to transfer the contract within the stipulated timeframe, such contracts shall be closed-out by the Exchange in accordance with the FMDQ OTC FX Futures Close-Out Methodology.

(ii) Upon the agreement to transfer the Client's OTC FX Futures contract(s), the contract(s), along with the attendant Client's Margins, shall be transferred to the substitute DMB and the substitute DMB shall assume all contractual responsibilities to the Client. The substitute DMB shall be margined on the transferred contract(s), subject to the standard margin requirements prescribed by FMDQ and the Clearing Agent or the margin requirements stipulated by the substitute DMB for the respective OTC FX Futures contracts, whichever is higher.

(iii) No OTC FX Futures contract within thirty (30) calendar days or less to maturity shall be transferrable and such contracts shall be subject to a close-out upon the declaration of an Event of Default by the Exchange.

(iv) Only OTC FX Futures contracts purchased from Transaction Counterparties shall be transferrable for the purposes set out in section 6.3 of these Standards.

(iv) Upon the declaration of an Event of Default by the Exchange, the defaulting DMB's open contracts in OTC FX Futures executed with Transaction Counterparties shall be closed out and terminated, after which all Early Termination Amounts due to/from relevant Transaction Counterparties (i.e. other DMBs and the CBN) shall be determined and debited/credited to the defaulting DMB's CBN operating account by the Clearing Agent.

6.4. Force Majeure

Force majeure can be construed in accordance with the provisions of the relevant master agreements executed between Transaction Counterparties, and between DMBs and Clients.

7. EXTERNALISATION OF PROCEEDS

7.1. FPIs shall not externalise imported capital until after the maturity date of the OTC FX Futures contract. However, FPIs may externalise Settlement Amount(s) without liquidating capital.

7.2. Settlement Amount(s) received for hedging FCY loans shall not be externalised. The maximum amount that FCY loans obligors are permitted to externalise shall not exceed the value of the principal and interest payments on their respective FCY loans. At maturity of the FCY loans, the Trade DMBs shall update the FFTRS or such other FMDQ-advised medium with information on the utilisation of the FCY loans exposure. Subsequently, the Futures DMBs shall ascertain the validity of the utilisation prior to releasing the Settlement Amounts to the Clients.

7.3. With the exception of FPIs and FCY loans as described in sections 7.1 and 7.2, Settlement Amount(s) of OTC FX Futures for all eligible invisible transactions qualify for externalisation only after the completion of the transaction cycle (i.e. remittance on the invisible transaction hedged) and on the presentation of an OTC FX Futures Settlement Advice issued by FMDQ.

8. TREATMENT OF COLLATERAL MARGIN

8.1. The Collateral Margin shall remain the assets of the DMBs, the Clients margined for their OTC FX Futures trades executed with DMBs and CBN, and the Clearing Agent shall hold the Collateral Margin in trust for the DMBs, the relevant margined Clients, and CBN respectively.

8.2. The CBN's Collateral Margin shall be invested in short-tenored sovereign fixed income securities which shall be held with designated Custodians in favour of "*NIBSS/FMDQ: OTC FX Futures Margins*".

9. DUTIES AND OBLIGATIONS OF THE DEALING MEMBER (BANKS)

9.1. **General Obligations**

(i) DMBs shall act as Settlement Banks with respect to all executed OTC FX Futures contracts and shall comply with the Margin requirements as may be stipulated from time to time by FMDQ and the margining process as advised by the Clearing Agent.

(ii) DMBs shall pay transaction fees related to OTC FX Futures transactions.

(iii) DMBs shall comply with the technical requirements of the relevant trading system(s) and/or any other information technology system, network, portal etc. operated and advised by FMDQ.

(iv) DMBs shall promptly notify FMDQ, in writing, of any event that is likely to affect their ability to engage in trading activities in OTC FX Futures.

(v) DMBs shall report all defaulting Clients to the Exchange.

(vi) DMBs shall take reasonable steps to ensure that their Authorised Representatives do not participate in any form of insider trading, speculative activity, fraudulent acts or assist any legal entity to participate in any such insider trading, speculation or fraud.

(vii) DMBs shall diligently supervise their Authorised Representatives in the conduct of their trading activities.

(viii) DMBs shall ensure that documents, records, or any other material related to trading, howsoever called, are kept strictly confidential except as may be required by Applicable Law and shall maintain proper records and accounts of all OTC FX Futures transactions carried out for such period as may be determined by FMDQ.

(ix) DMBs shall keep and retain all recordings of phone conversations and all correspondence, in respect of OTC FX Futures transactions and shall retain such records for a period as prescribed in the FMDQ Dealing Membership Agreement.

(x) To ensure a proper audit trail is maintained, all relevant documentation for every OTC FX Futures transaction shall be kept in the same file and appropriately referenced (e.g. by using unique reference numbers for every transaction) in order to distinguish transactions from one another.

(xi) DMBs shall develop policies and establish processes to ensure their institutions are not used as vehicles for speculative activities in the OTC FX Futures market. DMBs' OTC FX Futures transaction policies and procedures shall be subject to the FMDQ and CBN examinations.

(xii) DMBs in whatever capacity (Futures, Trade or Spot FX) shall be responsible for updating/confirming transaction information about the FX Futures contract, the eligible underlying transaction and the Spot FX onto the FFTRS or such other FMDQ-advised medium throughout the life of the transaction up until utilisation of the FX.

(xiii) DMBs shall comply with such other rules, guidelines, standards and regulations as FMDQ may prescribe from time to time.

9.2. **Reporting Obligations**

(i) DMBs shall comply with the reporting requirements as determined by FMDQ from time to time.

(ii) All OTC FX Futures transactions shall be executed on the FFTRS. However, where transactions are consummated via another system (e.g. over the telephone), such transactions must be voice reported/updated on the FFTRS or such other FMDQ-advised medium by 3:00 PM on the day the transaction is executed.

(iii) DMBs shall submit complete and/or accurate data in the FMDQ-advised reporting template(s).

(iv) DMBs shall file quarterly operational and risk management reports in the FMDQ-advised reporting template within ten (10) business days after the end of each quarter for which the report is prepared.

(v) The report referred to in section 9.2. (iv) shall be certified by the DMB's Chief Dealer and/or Treasurer, attesting to the accuracy and completeness of the information provided in the reports.

(vi) Any report that is filed after the due date will incur a late submission fine of ₦250,000.00 [two hundred and fifty thousand Naira], and then ₦10,000.00 [ten thousand Naira] for each business day that the report remains unfiled.

(vii) DMBs shall immediately notify FMDQ in writing of their knowledge of any defaults or acts by

Clients with respect to their obligations and conduct under the OTC FX Futures contracts or the provisions of the FMDQ Standards and CBN Guidelines. Such defaults and acts include but are not limited to the following:

(a) Failure by the Client to comply with the margin/collateral requirements as may be stipulated by the DMB from time to time.

(b) Where it is discovered at any point during the transaction cycle that the Client's involvement in the OTC FX Futures contract is not backed by a legitimate trade.

(c) Failure by the Client to provide adequate trade documentation.

(d) Failure by the Client to make purchase of the Spot FX at maturity or near maturity without providing valid justification/supporting documents. Valid justification in some instances may include observable extreme illiquidity in the Spot FX market at the time of the maturity of the OTC FX Futures contract.

(e) Cancellation of the eligible underlying trade after execution of an OTC FX Futures contract.

(f) Cancellation/resale of Spot FX after using the exchange transaction to validate the settlement on an OTC FX Futures contract.

9.3. **DMBs' Responsibilities to Clients**

(i) DMBs shall conduct adequate due diligence and product suitability assessment on their Clients prior to entering into an OTC FX Futures contract.

(ii) DMBs shall inform their Clients, in writing, of all risks associated with engaging in OTC FX Futures contracts.

(iii) A written undertaking should be obtained from the Client, stating that it understands the product and the attendant risks.

(iv) Futures DMBs shall provide Clients with daily reports on the status of their OTC FX Futures contracts (including but not limited to potential gains or losses, eligible underlying transaction documentation status and relevant margin requirements). Futures DMBs are advised to provide their Clients with online access to the daily status reports.

(v) DMBs shall act honestly, fairly and professionally at all times in the best interests of their Clients.

9.4. **Business Practice**

(i) Similar to the global master agreements executed with the CBN such as the NMFA, DMBs are required to execute appropriate agreements with their Clients in relation to any OTC FX Futures trades.

(ii) DMBs shall ensure that the Settlement Amounts on OTC FX Futures contracts transacted with any Client are delivered on the agreed respective settlement dates subject to the Client having met the required obligations at maturity of the OTC FX Futures contracts as set out in these Standards. However, where Clients fulfill of all required obligations after the agreed settlement dates of their OTC FX Futures contracts, DMBs shall deliver the Clients' Settlement Amounts not longer than one (1) business day after receipt of the relevant Settlement Amounts from the Clearing Agent.

(iii) DMBs are advised to manage counterparty risk in the context of their overall credit risk management framework and are encouraged to upgrade their market risk management practices and processes in order to achieve this goal.

(iv) DMBs shall agree with Clients, appropriate interest to be paid on Clients' Margins held in respect of executed OTC FX Futures contracts.

(v) DMBs shall not exceed the FCTPL as approved by the CBN.

(vi) DMBs shall have a robust business continuity plan and be able to interface with FMDQ from an alternate location (contingency dealing room) in the case of a disaster.

(vii) DMBs' disaster recovery capabilities shall be reflected in their business continuity plans and routinely tested to ensure continuous participation in OTC FX Futures trading operations (including trading, clearing and settlement) in the event of a wide-scale disruption in the DMB's primary place of business.

(viii) DMBs shall maintain a robust compliance programme, including procedures to identify and mitigate legal, regulatory, financial, and reputational risks. Such programmes should include compliance officers dedicated to the business lines relevant to the DMBs' FX operations.

10. DUTIES AND OBLIGATIONS OF THE CLEARING AGENT

10.1. The Clearing Agent shall ensure that the relevant pledge indicators are placed on the collateral accounts of all participants, including the CBN and also acts as a trustee of the securities on behalf of the DMBs and the Clients margined for their OTC FX Futures trades executed with DMBs, in addition to ensuring the risk management structures put in place are implemented in a timely and orderly manner.

10.2. Based on the mandate assigned to FMDQ as provided in the agreement executed between the CBN and FMDQ, the Clearing Agent shall debit/credit the CBN's OTC FX Futures margining and settlement account for all Initial and Variation Margins related to all OTC FX Futures contracts executed by CBN, and the Settlement Amounts of said contracts on their respective settlement dates.

10.3. All credits/debits to DMBs' CBN operating accounts shall be accompanied by narrations stating the purpose of the credits/debits.

11. DUTIES AND OBLIGATIONS OF THE CBN

11.1. CBN shall function as a participant/counterparty and not as a regulator when transacting in the OTC FX Futures market. Consequently, OTC FX Futures transactions executed by the CBN are legally binding and enforceable.

11.2. The roles and responsibilities of the CBN to be margined on all its OTC FX Futures contracts are provided in the terms and conditions of the relevant agreements duly executed by Authorised Representatives of the CBN.

12. COMPLAINTS MANAGEMENT & DISPUTE RESOLUTION

12.1. In accordance with the FMDQ Complaints Management Framework, all participants shall report all complaints emanating from activities conducted within, or connected to, the OTC FX Futures market to FMDQ.

12.2. Further to section 12.1, all disputes that arise out of transactions amongst OTC FX Futures market participants shall also be referred to FMDQ for investigation and adjudication.

13. ENFORCEMENT OF THE STANDARDS

Failure of a DMB to comply with the provisions of these Standards shall attract one or more of the following penalties, *inter alia*:

(i) Warning letters.

(ii) Public censure.

(iii) Fines.

(iv) Suspension from the FMDQ markets.

(v) Revocation of Dealing Membership Licence.

(vi) Non-consideration for the FMDQ GOLD Awards.

(vii) Report to the regulatory authorities on the activities of the DMB and its Authorised Representatives.

(viii) Such other penalties as may be prescribed in the OTC FX Futures Market Infractions and Penalties Guide.

14. PRIMACY OF THE STANDARDS

These OTC FX Futures Market Operational Standards have been endorsed by the CBN. Consequently, in the event of a conflict between these OTC FX Futures Market Operational Standards and any other related document, the Standards shall supersede such document to the extent of the inconsistency.

15. REVIEW AND AMENDMENT OF THE STANDARDS

The OTC FX Futures Market Operational Standards shall be reviewed and may be amended periodically to ensure conformity with global standards.

16. EFFECTIVE DATE OF THE STANDARDS

These Revised OTC FX Futures Market Operational Standards shall be effective from August 16, 2018 and supersede the previous version issued on April 21, 2017.