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BROOKS & KNIGHTS
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Weekly Newsletter

February 26, 2020–

FINANCE WATCH

Derivatives Trading in Nigeria: The New SEC Rules Amendment

The Nigerian Securities and Exchange Commission (**SEC**) has decided to develop a derivatives trading market in Nigeria. To this end, the SEC issued an amendment to its Rules and Regulations in December 2019, providing for new rules on the regulation of derivatives trading and on central counter party (**CCP**).[1] In February 2020, the Central Bank of Nigeria (**CBN**) in collaboration with FMDQ Holdings Plc offered its first long-term Naira settled OTC FX Futures Contracts to hedge against foreign exchange (**FX**) risk, with a maximum tenor of 5 years and to be traded on the FMDQ OTC Securities Exchange.[2]

This combination of new rules and products is opening up derivatives trading in Nigeria to new investors and participants as regulators seek to bolster the market and offer new risk management products.

The SEC amendments provide for Rules on the Regulation of Derivatives Trading (the Derivatives Trading Rules) and the Rules on Central Counterparty (CCP Rules). The SEC Derivatives Trading Rules apply particularly to exchange traded derivatives, however, some reporting requirements exist for OTC derivatives. They provide for the registration of derivatives contracts with the SEC as well as the participants in the derivatives trading markets. Under the Rules, participants include exchanges, dealing members, derivatives clearing members, and central counterparties. Each participant has registration requirements with the SEC. The Derivatives Trading Rules provide for more detailed provisions for exchange traded derivatives however they do contain reporting requirements for OTC derivatives.

The CCP Rules make special provisions for central counterparties (CCPs). They are required to register with the SEC and must have sufficient assets, resources and effective and reliable infrastructure to perform their functions including their clearing operations. The functions of a CCP under the Rules include acting as intermediary between counterparties, facilitating post trade management functions and implementing a margin system that establishes margin levels commensurate with the risks and attributes of each product, portfolio and the market.

The SEC Rules amendment on derivatives trading are an important step in the right direction for the expansion of the Nigerian financial markets and the diversification of portfolio options in favour of derivative products. While its implementation is yet to be seen, the rules clearly anticipate issues of arbitrage and important risks that undermine the market such as credit and operational risks and provides for reporting requirements to watch for and prevent those risk events. They provide for more detailed provisions for Exchange traded derivatives than for OTC derivatives, which are the riskier derivatives products. They however imply the development of more detailed regulations for OTC derivatives.

For further information on how the new SEC Rules on derivatives trading affects your business, contact us at Brooks and Knights Legal Consultants.

https://sec.gov.ng/wp-content/...

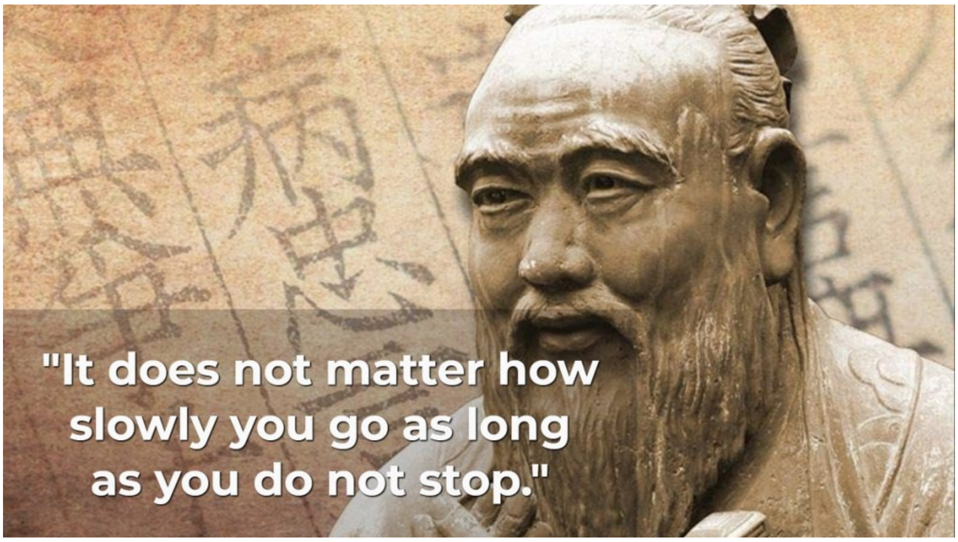
[2] Lolade Akinmurele, *In Boost to Foreign Inflows, CBN, FMDQ Launch Long-Term Naira Contract*, Business Day, 14 Feb 2020 at p.1.

DO YOU KNOW?

A primary auction of Nigerian Treasury Bills will take place today, February 26, 2020.

The Federal Government of Nigeria is determined to introduce incentives to boost investments in the nations capital market.

The Central Bank of Nigeria said it had recovered over 60 billion Naira excess charges imposed by banks on customers and returned the money to the owners.



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