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**Ref: FMD/DIR/CIR/GEN/08/007**

**April 21, 2017**

## **TO ALL AUTHORISED DEALERS**

### **ESTABLISHMENT OF INVESTORS' & EXPORTERS' FX WINDOW**

#### **1. INTRODUCTION**

The Central Bank of Nigeria (CBN), in a continuing effort to deepen the foreign exchange (FX) market and accommodate all FX obligations, hereby announces a special window for Investors, Exporters & End-users (hereinafter referred to as the "**Investors' & Exporters' FX Window**" or the "**Window**"). The purpose of this Window is to boost liquidity in the FX market and ensure timely execution and settlement for eligible transactions.

#### **2. PERMITTED TRANSACTIONS**

Transactions eligible to access the Window include:

**a) Invisible Transactions (excluding International Airlines Ticket Sales' Remittances)** - Loan Repayments, Loan Interest Payments, Dividends/Income Remittances, Capital Repatriation, Management Services Fees, Consultancy Fees, Software Subscription Fees, Technology Transfer Agreements, Personal Home Remittances and any such other eligible invisible transactions including 'Miscellaneous Payments' as detailed under Memorandum 15 of the CBN Foreign Exchange Manual.

**b) Bills for Collection**

**Note:**

*The above permitted invisible transactions (a) and Bills for Collection (b) are eligible to purchase foreign currency i.e., US Dollars sourced from the CBN FX Window limited to Secondary*

*Market Intervention Sales (SMIS) Wholesale (Spot and Forwards) only.*

*International Airlines Ticket Sales' Remittances shall only be eligible to access the CBN FX Window (i.e., Secondary Market Intervention Sales (SMIS) – Retail and Wholesale; Spot and Forwards).*

- c) Any other trade-related payment obligations (at the instance of the customer)

### **3.0 PARTICIPANTS**

The supply of foreign currency to the Window shall be through portfolio investors, exporters, Authorised Dealers and other parties with foreign currency to exchange to Naira. The CBN shall also be a market participant at this Window to promote liquidity and **professional market conduct**.

### **4.0 PRICE DISCOVERY**

Due to the slow progress made by corporates in on-boarding the FMDQ Thomson Reuters FX Trading & Auction Systems, participants at this Window shall trade via telephone until appreciable progress is made with the FX Trading Systems On-boarding process. Authorised Dealers are therefore advised to promote market transparency by encouraging their corporate clients to on-board to ensure the activities of the Window are operated on the FX Trading Systems. Participants are advised to ensure that all trade conversations are recorded and auditable. Consequently, to provide price discovery to the market, FMDQ OTC Securities Exchange (FMDQ) shall be charged with polling buying and selling rates and other relevant information from the major participants in the market to provide participants with the requisite price discovery, and the CBN with the indicative market depth until the market migrates to the FX Trading Systems.

Therefore, FMDQ shall publish on its website ([www.fmdqotc.com](http://www.fmdqotc.com)) market rates and any other relevant information twice daily as follows:

- (i) Indicative Opening Mid-Rate - 9:00 AM daily
- (ii) Indicative Closing Mid-Rate - 4:00 PM daily

Furthermore, to support appropriate benchmarking and facilitate derivatives activities in the Investors' & Exporters' FX Window, **FMDQ will develop and publish a new fixing, NAFEX (the Nigerian Autonomous Foreign Exchange Fixing)**.

## 5.0 OPERATIONAL REQUIREMENTS

The following conditions shall apply:

- a) The exchange rates of the transactions in the Window shall be as agreed between Authorised Dealers and their counterparties (i.e. willing buyer and willing seller basis).
- b) The CBN reserves the right to intervene as a buyer or seller, as it deems fit, in the Window.
- c) Authorised Dealers may hold positions subject to their respective Foreign Currency Trading Position Limits (FCTPL).
- d) Authorised Dealers shall not exceed their respective FCTPL without the approval of the CBN. Compliance with the FCTPL shall be strictly monitored by the CBN.
- e) Where an Authorised Dealer has a foreign currency trading position in excess of its limit, it is expected that such excess shall be defused during trading hours. The Authorised Dealer shall offer the funds to the CBN or to another Authorised Dealer but with the prior express approval of the CBN. Where such funds are sold to other Authorised Dealers, the purchased funds shall only be sold by the buying Authorised Dealer to its customers. An attestation of this compliance must be provided by the buying Authorised Dealer to the selling Authorised Dealer. The funds purchased cannot be held in position overnight by the buying Authorised Dealer or sold to another Authorised Dealer.
- f) Information on transactions between Authorised Dealers shall be reported to the CBN on a daily basis.

All documentation requirements for permitted transactions shall apply.

Authorised Dealers shall render daily returns (hard and soft copy, in a format to be communicated by the CBN) of all transactions in this market to the Directors, Financial Markets and Banking Supervision Departments, Central Bank of Nigeria.

## 6.0 OTC FX FUTURES

Market participants in the FX market shall have opportunities to hedge their foreign exchange exposures. Authorised Dealers shall provide the market with required FX hedges including forwards, swaps, futures or options. The CBN shall continue to bolster liquidity in the derivatives market with the Naira-settled OTC FX Futures which shall, going forward, settle on NAFEX.

However, outstanding Naira-settled 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”), in consideration of the framework of the OTC FX Futures market at the time of execution of the contracts, may settle on the Nigerian Inter-bank Foreign Exchange Fixing (NIFEX) as stipulated as follows:

- 6.1 In order to uphold market stability and integrity, the CBN (in managing the transition of participants to the Window), shall offer to holders of the Legacy OTC FX Futures Contracts, the choice between

**Option A** - Settlement of their Legacy OTC FX Futures Contracts at the respective NIFEX rates at the maturity dates of the said contracts; and

**Option B** - Settlement of their Legacy OTC FX Futures Contracts at the respective NAFEX rates at the maturity dates of the said contracts.

Consequently, market participants who had hedged valid FX exposures with any of the April 2017 to March 2018 OTC FX Futures contracts as at April 18, 2017 (i.e., holders of the Legacy OTC FX Futures Contracts) should communicate their preferred settlement option as depicted above to FMDQ to enable appropriate settlement at the times of maturity of the respective OTC FX Futures contracts.

- 6.2 The above options shall be made available under the following conditions:

- (i) Holders of the Legacy OTC FX Futures Contracts that opt for settlement at the NIFEX rates (i.e., Option A), may source for the foreign currency, i.e., US Dollars, to settle their obligations on the Legacy OTC FX Futures Contracts’ underlying eligible transactions from the CBN FX Window (i.e., Secondary Market Intervention Sales (SMIS), the Investors’ & Exporters’ FX Window or the inter-bank FX market).
- (ii) Holders of the Legacy OTC FX Futures Contracts that opt for settlement at the NAFEX rates (i.e., Option B), shall **NOT** be eligible to source or purchase foreign currency i.e., US Dollars sourced from the CBN FX Window (i.e., Secondary Market Intervention Sales (SMIS) – Retail and Wholesale) to settle their obligations on the Legacy OTC FX Futures Contracts’ underlying eligible transactions. Holders may source the US Dollars through the Investors’ & Exporters’ FX Window or the inter-bank FX market to settle their attendant US Dollar liabilities.

- (iii) Holders of the Legacy OTC FX Futures Contracts have a maximum period of forty (40) business days from the date of this Circular, to advise FMDQ of their preferred settlement option for all Legacy OTC FX Futures Contracts. All Legacy OTC FX Futures Contracts without a firm confirmation of the preferred settlement option by the holder after this period shall be settled at either NIFEX or NAFEX depending on the type of the hedged eligible underlying transaction.
- 6.3 Any settlement option (i.e., Option A or Option B) selected by a holder of Legacy OTC FX Futures Contracts will be applied across all Legacy OTC FX Futures Contracts held by that holder i.e., a holder of multiple Legacy OTC FX Futures Contracts will not be permitted to choose more than one (1) settlement option for its Legacy OTC FX Futures Contracts.
- 6.4 Legacy OTC FX Futures Contracts and their attendant eligible underlying transactions shall be revalidated by the CBN and FMDQ where considered necessary.
- 6.5 For the avoidance of doubt, all Naira-settled OTC FX Futures contracts offered by the CBN post the release of this circular shall be settled at the NAFEX rate.

This Circular takes effect from April 24, 2017.



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