



# FMDQ SPOTLIGHT



***Newsletter Edition 2 – December 2014***

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# New Stories

## **Approval of FMDQ Bond Listing & Quotation Rules by SEC**

The Securities & Exchange Commission (SEC) has taken a step forward in creating and building a credible and transparent financial market with the approval of FMDQ's Bond Listing and Quotation Rules.

Considering FMDQ's Dealing Members create liquidity for debt instruments in the market, creating rules for listings and quotations to further empower the market was encouraged. The approval therefore given by SEC shows the significance the FMDQ currently plays in the financial market.

Listing and quotation of bonds on FMDQ have the following benefits to the issuers, investors, issuing houses, market makers, regulators and the capital market in general:

- Visibility
- Transparency
- Liquidity
- Efficiency

In order to achieve the desired transformation needed in our Debt Capital Market (DCM), FMDQ will be engaging in various initiatives developed to bring visibility, transparency, liquidity and efficiency to the Nigerian bond market, fundamentally providing world-class listing and quotation services to the market. FMDQ is also positioned to provide the same value-add and development to fixed income mutual funds. FMDQ is set to bring about the much needed transformation in the Nigerian DCM by taking the necessary steps to address the issues facing its proper development.

Listing and quotation on FMDQ will provide a whole host of benefits across the debt market value chain, positively impacting the DCM stakeholders i.e. issuers, investors, issuing houses, market makers and regulators. FMDQ's value-add to the DCM includes visibility and transparency to the listed/quoted debts, improved secondary market liquidity, benchmark pricing and price formation, among others, resulting in a more globally competitive Nigerian capital market.

All debt securities listed and quoted on FMDQ will be included on the FMDQ Bloomberg E-Bond Trading System (E-Bond). E-Bond is the system on which all bonds and treasury bills secondary market trading is carried out. Debt securities on E-Bond will benefit from the market presence and liquidity needed for price formation on all traded securities.

## **FMDQ Registration of New Members**

Further to the licencing of new Registration Members of FMDQ at the Cocktail Reception and Dinner Party held for the outgoing Directors of FMDQ in November 2014, FMDQ has admitted 3 new Members under the Registration Member (Listings) and Registration Member (Quotations) categories.

These new registrations bring FMDQ's membership base to a total of sixty-six (66). Institutions across all the different membership categories. FMDQ has twenty-six (26) institutions registered as Dealing Members. Under the Associate Member category, a total of thirteen (13) institutions are registered Members of FMDQ, comprising two (2) Inter-Dealer Brokers, six (6) Brokers and five (5) Clients. Under the Registration Member category, the Listings sub-category is made up of fourteen (14) institutions, while the Quotations sub-category is made up of thirteen (13) institutions.

The continuous growth in FMDQ Members is in line with the organisation's mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy.

[Click to view FMDQ Dealing Members](#)

[Click to view FMDQ Associate Members](#)

[Click to view FMDQ Registration Members](#)

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## **Market Development Stakeholder Session – Series 4**

As part of its mandate to develop and integrate the Nigerian financial market, FMDQ, looking to expand the trading activities in the market, has embarked on an initiative to introduce new dealing institutions into the FMDQ market, i.e. the Investment Banking Firms (IBFs). FMDQ seeks to achieve this through a new membership sub-category, the Specialist Dealing Members (SDMs).

The FMDQ membership categories are as follows:

- Dealing Members: comprising of banks and discount houses (SDMs will fall under this category)
- Associate Members: Inter-dealer Brokers; Brokers; Clients
- Registration Members: Listings; Quotations

On the follow-up from a brainstorming session held with the IBFs in September 2014 on the feasibility of the firms participating in the FMDQ market, activating the SDM sub-category was necessitated.

To this end, FMDQ hosted a forum to brainstorm and deliberate on how the SDM sub-category can and will operate. The Market Development Stakeholders' Session (Series 4) – “Investment Banking Firms’ Participation in the FMDQ Market”, which held at La Cour, Ikoyi, Lagos, on December 4, 2014 provided a platform for representatives of the IBFs to deliberate on the role of SDMs. The session also involved a presentation and discussions on the Debt Market Value Chain, from origination through to trading.

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### **FMDQ Members’ Only Meeting – FMDQ Market Architecture**

FMDQ hosted its maiden “Members Only” meeting in December 2014. Having achieved what it believes to be some ‘critical mass’ in its membership, FMDQ saw this as an opportune time to bring together the different areas of its market as represented by its respective membership categories, to help design and craft the architecture of the market in which the participants operate.

The Members Only Market Architecture Meeting, which held at the InterContinental Hotel, Victoria Island, Lagos, on December 16, 2014, provided a platform, where for the first time, representatives of the different membership categories, consisting of Banks, Discount Houses, Investment Banks, Pension Fund Administrators, Fund Managers, Brokers, Inter-Dealer Brokers, Corporate Treasurers etc., came together, under one “roof”, to determine how their market should operate.

Deliberations centered on products, infrastructure, people/institutions and supervision of the market. FMDQ intends to hold the “Members Only” meetings semi-annually.

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# ***FMDQ Listings & Quotations***

## **Lagos State Bond Quotation on FMDQ Platform**

Sequel to the quotation of the first commercial paper (CP) on its platform, FMDQ has admitted and quoted the first non-FGN bond on its platform. The quotation of the “Lagos State Bond N167.5bn Debt Issuance Programme” on the FMDQ platform serves to provide unprecedented visibility and transparency to the non-FGN bonds market. The quotation is granted on the basis of Rule 185 of the Securities and Exchange Commission (SEC) Rules and Regulation 2013, whereby a security, which is registered and listed on a recognised securities exchange, is granted permitted trading status by FMDQ.

This quotation provides the necessary visibility and liquidity for the secondary market trading of non-FGN bonds as they will be included on the FMDQ Bloomberg E-Bond Trading System (E-Bond) and also on the FMDQ website, providing issuers, investors, dealers, regulators and the general public with the transparency to instill the much needed confidence in the non-FGN bonds market.

FMDQ, through this initiative, similar to what the organization is doing in the CP market, will be providing price/value data and detailed issuers’/issue information on FMDQ quoted bonds to stakeholders – investors, issuers and regulators – thereby strengthening the governance of the Debt Capital Market (DCM). This should position the DCM for improved price formation, liquidity and transparency, thereby giving it more credibility and enhanced global competitiveness.

[Click to view details of Lagos State Bond N167.5bn Debt Issuance Programme Quotation](#)

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# FMDQ Turnover & Dealing Members' League Table

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.Bills), Money Market (Repurchase Agreements, Buy-Backs and Unsecured Placements/Takings) and Bonds (FGN Bonds and Other Bonds). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories. These figures exclude primary market auctions in T.Bills, Bonds and FX.

The data, collated from the weekly trade data submissions by FMDQ Dealing Members, represents trades executed between Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

## FMDQ OTC Market Turnover (January – November 2014)

	Turnover (₦'million)
<b>Foreign Exchange</b>	28,486,580
<b>Foreign Exchange Derivatives</b>	5,856,799
<b>Treasury Bills</b>	24,032,625
<b>FGN Bonds</b>	7,144,984
<b>Other Bonds</b>	227,314
<b>Eurobonds</b>	-
<b>Repurchase Agreements/Buy-Backs</b>	21,702,470
<b>Unsecured Placements/Takings</b>	5,511,292
<b>Money Market Derivatives</b>	50,829
	<b>93,012,892</b>
<i>USD equivalent (million)</i>	581,331
<b>No. of Business Days</b>	233
<b>Average Daily Turnover</b>	399,197
<i>USD equivalent (million)</i>	2,495

The FMDQ League Table shows the rankings of its Dealing Members across all products traded on the FMDQ platform – Foreign Exchange (FX), FX Derivatives, Treasury Bills, Bonds (FGN Bonds and Other Bonds), Money Market (Repurchase Agreements, Buy-Backs and Unsecured Placements/Takings) and Money Market Derivatives. It depicts the overall ranking for the cumulative value traded across all products.

**Top 10 Dealing Members on FMDQ OTC Market (January – November 2014)**

Rank	Dealing Member
1	STANBIC IBTC BANK PLC
2	ECOBANK NIGERIA LIMITED
3	DIAMOND BANK PLC
4	STANDARD CHARTERED BANK NIGERIA LIMITED
5	ACCESS BANK PLC
6	CITIBANK NIGERIA LIMITED
7	UNITED BANK FOR AFRICA PLC
8	GUARANTY TRUST BANK PLC
9	FIRST CITY MONUMENT BANK LIMITED
10	FIRST BANK OF NIGERIA LIMITED

In the above, all the banks maintained their positions in the League Table from October 2014 except for Guaranty Trust Bank PLC and First City Monument Bank Ltd. who swapped positions. Guaranty Trust Bank PLC moved up the table from 9<sup>th</sup> place to 8<sup>th</sup> place, displacing First City Monument Bank Ltd. from the 8<sup>th</sup> position to occupy the 9<sup>th</sup> position. Guaranty Trust Bank PLC reported an increase in FX and Repos/Buy-Backs transactions for the month of November 2014.

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## *Upcoming Events*

### **FMDQ Debt Capital Market Workshop**

FMDQ, along with SEC, will be holding a workshop on “Nigeria’s Debt Capital Market”. This workshop will be convened in February 2015, where all the challenges being faced in the Nigerian DCM will be traced to their various solutions. All DCM stakeholders are encouraged to attend. Details of the workshop will be communicated in due course.

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## *FMDQ Learning*

### **Introduction to Repurchase Agreements (Repos)**

Repos are defined as the sale of securities together with an agreement for the seller to buy back the securities at a later date. They are classified as money-market instruments and are usually used to raise short-term capital.

The party that original buys the securities acts as a lender while the seller acts as a borrower, using the securities involved as collateral for a secured cash loan at a fixed rate of interest. In some scenarios, the repurchase price will be greater than the original sale price, the difference effectively representing interest and sometimes called the **repo rate**.

A repo is almost equivalent to a spot sale combined with a forward contract. The spot sale results in transfer of money to the borrower in exchange for legal transfer of the security to the lender, while the forward contract ensures repayment of the loan to the lender and return of the collateral of the borrower. The difference between the forward price and spot price is effectively the interest on the loan. The settlement date of the forward contract is the maturity date of the loan.

For the party selling the security and agreeing to repurchase in the future, it is a **Repo** while for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a **Reverse Repo**.

The following are types of repos:

- Due bill/hold in-custody repo – This has grown less common as the repo market has grown. The collateral pledged by the borrower is not actually delivered to the cash lender but is placed in an internal account held in custody by the borrower for the lender throughout the duration of the trade
- Tri-party repo – In a tri-party repo, a custodian bank or international clearing organisation, usually called a tri-party agent, acts as an intermediary between the two (2) parties to the repo. The agent is responsible for the administration of the transaction including collateral allocation, marking to market and substitution of collateral
- Whole loan repo – A form of repo where the transaction is collateralised by a loan or other form of obligation rather than a security
- Equity repo – Simply a repo in equity securities such as ordinary shares
- Sell/buy back & buy/sell back – This is the spot sale and a forward repurchase of a security. The forward price is set relative to the spot price to yield a market rate of return
- Securities lending – The purpose of this is to temporarily obtain the security for other purposes such as covering short positions
- Reverse repo - This is simply the same repurchase agreement from the buyer's viewpoint and not the seller's

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