FMDQ SPOTLIGHT

Newsletter Edition 16 – February 2016

Contents

New Stories

FMDQ includes Associate Member (Clients) on FMDQ Bloomberg E-Bond Trading System

FMDQ OTC Securities Exchange ("FMDQ" or "the Exchange"), in line with its mandate to continuously add value to its stakeholders, has announced the inclusion of its Associate Member (Clients) (AMCs) on FMDQ Bloomberg E-Bond Trading System (E-Bond). This trading system provides a complete, consolidated marketplace for the trading of fixed income securities, including, among others, Federal Government of Nigeria (FGN) bonds, non-FGN bonds, Nigerian treasury bills and commercial papers, offering market participants a robust and flexible set of tools supporting the full trade workflow.

By permitting their participation on E-Bond, AMCs, through the institutions' respective Bloomberg terminals, will be able to trade (request-for-quote) fixed income securities with the FMDQ Dealing Members (DMs). When fully implemented, AMCs will be able to actively request-for-quote from multiple (up to a maximum of five (5)) DMs simultaneously on trades of interest via E-Bond.

This initiative would facilitate the benefits of real time price discovery, best price execution, transparency and request response speed, among others, to AMCs.

For details on how to become an AMC, kindly send an email to bdg@fmdqotc.com.

Back to Top

FMDQ Listings & Quotations

FMDQ Admits ₦7.23bn and ₦2.77bn (Series 2 & 3) Guinness Nigeria PLC Commercial Papers

FMDQ achieved another stride in its commitment to the development of the Nigerian commercial paper (CP) market with the admission of the Guinness Nigeria PLC ₦7,225,956,000.00 and ₦2,774,044,000.00 CP Notes for quotation on the Exchange. These CPs represent series 2 and 3 under Guinness Nigeria PLC's ₦10,000,000,000.00 Commercial Paper Issuance Programme. This achievement immediately followed the recent successful listing of the Transcorp Hotels PLC ₦10,000,000,000.00 bond on FMDQ at the beginning of the year.

The Board Listings, Markets and Technology Committee of FMDQ granted its approval for the quotation of the Guinness Nigeria PLC CPs after they successfully met the requirements as contained in the FMDQ CP Quotation Rules. As has become the norm, a Quotation Ceremony was held to commemorate the admission of the CPs on the Exchange.

Guinness Nigeria PLC was represented at the prestigious Ceremony, by its Managing Director/CEO, Mr. Peter Ndegwa, as well as other key representatives from the organisation. Standard Chartered Capital & Advisory (Nigeria) Limited, the sponsor of the issue on FMDQ and a Registration Member (Quotations) of FMDQ, represented by the CEO, Mr. Leke Ogunlewe, was also present at the Ceremony. Other key parties to the transaction were also in attendance at the Ceremony, including; Stanbic IBTC Capital PLC, joint lead arranger to the issue, represented by Mr. Kobby Bentsi-Enchill, Executive Director, Debt Capital Markets; and Standard Chartered Bank Nigeria Limited, represented by the Head, Financial Markets Nigeria & West Africa, Mr. David Adepoju.

Vice President & Divisional Head, Marketing & Business Development of FMDQ, Ms. Tumi Sekoni, whilst delivering the welcome address, acknowledged the Guinness Nigeria PLC CPs as the second and third non-bank real sector CPs to be quoted on the Exchange, following the quotation of the pioneer non-bank real sector CP, the ₦17,709,445,000.00 Nigerian Breweries PLC CP on the Exchange in November 2015. Ms. Sekoni highlighted that the quoted Guinness Nigeria CPs would gain access to the full complement of the FMDQ quotations service, which includes but is not limited to global visibility, transparency and continuous disclosure of relevant information (such as issuer rating, issuance type, outstanding value and issuer history).

Ahead of the signing of the FMDQ Quotation Register and the presentation of the Commercial Paper Quotation Certificate to the issuer, Mr. Ndegwa, in his address commented, "We are very pleased with the successful quotation of these CPs issuance for Guinness Nigeria PLC and the support received from FMDQ and our advisors to facilitate this. The quotation of these CPs has allowed us successfully diversify our short-term funding sources at a reduced cost whilst delivering value to our shareholders. We will continue to access the CP markets for optimal funding as ideal windows open for Guinness Nigeria to access funds from a varied pool of investors."

Also speaking at the Ceremony, following the presentation of the FMDQ bespoke tombstone to the Registration Member (Quotations) and sponsor of the issues on FMDQ, Mr. Ogunlewe commented, ''Standard Chartered is proud to have sponsored the quotation of these CPs on FMDQ for Guinness Nigeria PLC. The quotation follows the successful issuance of the Series 2 and 3 transactions in November 2015 and should herald improved liquidity for both instruments. We believe this is the beginning of many more opportunities to support institutional growth for our clients and the continuous development of the economy at large. This is clearly in line with our commitment to be "Here for good".

In his remark, Mr. Bola Onadele. Koko, Managing Director/CEO of FMDQ, congratulated Guinness Nigeria PLC on its decision to quote its CPs on FMDQ and highlighted that the quotation of these CPs, being non-bank real sector institution CPs, was evident of the positive progression of the Nigerian CP market, serving to instill confidence in the possibilities of the Nigerian debt capital market. He stated that FMDQ, as a securities exchange with a desire to develop the Nigerian CP market, promotes credibility for quoted CPs, through a highly efficient registration process, instituting requisite world-class standards to drive transparency, governance, market oversight, credibility and market liquidity to power growth in the Nigerian financial markets with a view to protecting stakeholder interests.

As a securities exchange and self-regulatory organisation, with a commitment to facilitate growth and development in the financial market and Nigerian economy at large, FMDQ is committed to

Back to Top

promoting an efficient, transparent and well regulated market, which will attract and retain investors (domestic and foreign).

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), Bonds (FGN bonds, other bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds), Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories respectively. These figures exclude primary market auctions in T.bills and bonds.

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 2016)

	Turnover (₦'mm)
Foreign Exchange	1,717,969
Foreign Exchange Derivatives	354,648
Treasury Bills	2,068,798
FGN Bonds	1,160,055
Other Bonds*	17,750
Eurobonds	1,799
Repurchase Agreements/Buy-Backs	1,785,313
Unsecured Placements/Takings	239,538
Money Market Derivatives	-
	7,345,871
USD equivalent ('mm)	*37,052*

No. of Business Days	20
Average Daily Turnover	367,294
USD equivalent ('mm)	*1,853*

mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*
Note: Figures may be subject to change due to potential adjustments from Dealing Members
Source: FMDQ Data Portal as @ February 5, 2016; Figures reported by Dealing Members on a week-ending basis
USD/₦ @ 198.26

Trading activity at the Exchange, worth ₦7.4trn, in the FMDQ fixed income and currencies markets, was reported for the opening month of 2016. Despite the current challenges faced in the FX market, FX trading contributed the largest to overall turnover, accounting for 28.2%. T.bills followed closely with 28.16%, while secured market transactions (Repos/Buy-Backs) accounted for 24.3%. FGN bonds and Unsecured Placements/Takings contributed 15.79% and 3.26% respectively.

Back to Top

Top Ten (10) Dealing Members in FMDQ Market for January 2016

The FMDQ League Table shows the rankings of its Dealing Members across all products traded on the Exchange. The rankings represent the cumulative value across all products traded by the Dealing Members.

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

The top ten (10) Dealing Members for January 2016 accounted for 76% (₦5.6trn) of the overall turnover in the market, with the top three (3) accounting for 37% (₦2.8trn) of this sub-section of the market. Access Bank PLC, Diamond Bank PLC and First Bank of Nigeria Ltd. emerged as the leaders in value traded for the overall over-the-counter (OTC) market, occupying 1st, 2nd and 3rd places respectively for January 2016.

Back to Top

Upcoming Events

FMDQ Specialist Dealing Members – Simulation Workshop

In 2015, FMDQ launched the Specialist Dealing Member (SDM) category of membership with the aim of improving liquidity and price formation in the Nigerian fixed income (FGN bonds and T.bills) markets through the participation of non-bank financial institutions, i.e. the investment banking firms and securities dealing institutions, among others, making market in these securities.

As part of the implementation exercise for this membership category, a two (2) day Simulation Workshop (scheduled for Wednesday, March 23 & Thursday, March 24, 2016) is being organised for institutions that have expressed interest in becoming SDMs and successfully completed the initial membership application process.

The Workshop will afford SDMs the opportunity to experience trading fixed income products on FMDQ, as well as familiarise themselves with the modalities of trading these securities on the platform. The session promises to be an enlightening, educational and interesting one.

If you are interested in becoming an SDM and would like to participate in the upcoming Workshop, kindly contact bdg@fmdqotc.com.

Back to Top

FMDQ Learning

Introduction to Foreign Exchange Risk

What is Foreign Exchange Risk?

Foreign Exchange (FX) risk is a type of market risk which occurs as a result of a change in the price of an underlying currency against another. Companies and investors are exposed to this type of risk when undertaking a financial transaction involving a different currency other than their base currency. In addition, companies involved in imports and exports, or simply carrying out business operations across country borders are also exposed to this type of risk.

Types of Foreign Exchange Risk

There are three (3) types of FX risk, with each of these affecting companies in different ways. Therefore, understanding these risks can be a very useful tool for the international finance manager, company treasurer, or investor. The types of FX risk include:

- **Economic Exposure:** This relates with how the value of a firm is directly or indirectly influenced by fluctuations in FX rate. An adverse change in FX rate can affect a company's market share position in relation to its competitors, and its future cash flows from fixed assets; all directly affecting a firm's value. By its nature, this type of FX risk is very difficult to quantify because it deals with unexpected changes in FX rates and consequently, difficult to hedge. This exposure type is long-term in nature

- **Translation Exposure:** This risk type is associated with the change in value of a firm's equity, assets, liabilities or income as a result of exchange rate changes; in other words, the way a company's financial report is affected by exchange rate movements. It is also known as accounting exposure. This type of exposure is medium to long-term

- **Transaction Exposure:** This refers to the risk associated with a change in exchange rate in the period between the initiation of a transaction and its settlement. This is largely faced by companies engaged in international trade, where currency fluctuations occur after financial commitments have been made. This type of FX risk is mainly concerned with how a company's cash flows (i.e. payments and receivables) are affected by unanticipated FX fluctuations. This exposure is short to medium-term in nature

Mitigating or Hedging Foreign Exchange Risk

FX Risk Type	Mitigation Strategy
Economic Exposure	As noted earlier, economic exposure is difficult to quantify because it deals with effects of unexpected fluctuations in FX, which are not easy to predict. However, multinationals can mitigate this risk by diversifying their operations internationally. Examples of diversification opportunities include: ▪ Location of production facilities ▪ Sales and products offerings ▪ Access to finance ▪ Supply chain management in the procurement of and access to raw materials When correctly implemented, diversification affords a company the opportunity to reduce costs and consequently, the overall impact of economic exposure.
Translation Exposure	As this exposure type deals with a company's financial reporting process, mitigating against it largely depends on the accounting standards of the home country, which in turn govern how income from overseas operations are reported. Accounting techniques such as consolidation reporting and effective cost accounting evaluation procedures are used.[1]
Transaction Exposure	There are two (2) ways of mitigating against transaction exposure, using: Financial/External Techniques and Operational/Internal Techniques ▪ Financial Techniques involve the use of financial products such as FX derivatives to hedge against transaction exposure. Some FX derivatives include FX Forwards, FX Futures, FX Options and FX Swaps. The 3rd edition of Spotlight (January 2015) provides a full introduction to FX derivatives (Click **here** to read Spotlight – Edition 3) ▪ Operational Techniques may include company policies such as

invoicing in the company’s home currency i.e. ensuring that all foreign customers pay in the company’s home currency, and the company pays for all imports in its home currency. The drawback here is that the FX risk does not actually disappear, as it only gets passed on to the customers who are the end-users of the products or services.

[1] Eun, Cheol S.; Resnick, Bruce G. (2011). International Financial Management, 6th Edition. New York, NY

In conclusion, it is imperative for companies to identify and understand FX risk, especially as financial markets grow continually and interlink with one another, while businesses are increasingly looking globally for access to new frontiers. Businesses in a position to effectively analyse FX risk, as it relates to their activities, are better able to make informed decisions regarding their operations and cash flows.

Back to Top