FMDQ SPOTLIGHT

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New Stories

FMDQ Partners with Pencom (towards improved governance) as both sign Regulatory Supervision Collaboration Agreement

As part of efforts geared towards the realisation of its corporate vision and agenda, FMDQ OTC Securities Exchange ("FMDQ" or "the Exchange") has formalised its partnership with the National Pension Commission ("PenCom" or "the Commission") through the co-signing of a Regulatory Supervision Collaboration Agreement at a brief Ceremony on Thursday, April 7, 2016, at the Commission's offices in Abuja. This is indeed a landmark achievement as this partnership will serve to change the face of the Nigerian financial markets from the buy-side perspective towards investor protection, integrity of service, fair return on investments and ultimately the development of the nation's economy.

In attendance to witness this landmark event were the Director-General, PenCom, Mrs. Chinelo Anohu-Amazu; Independent Non-Executive Director and Chair, Board Regulation and Risk Management Committee, FMDQ, Ms. Daisy Ekineh; Managing Director/CEO, FMDQ, Mr. Bola Onadele. Koko; key representatives of the Central Bank of Nigeria Banking Supervision and Financial Markets Departments; and other key representatives from FMDQ and PenCom.

In her opening address, the PenCom DG acknowledged and commended FMDQ on its positive impact and giant strides in the development of the Nigerian financial system, and noted that this Regulatory Supervision Collaboration Agreement executed with the Exchange will serve to enable the realisation of PenCom's investment objectives of safety of pension assets and maintenance of fair returns on investment. According to the DG, "this partnership which would grant PenCom online real time access to FMDQ's trading system(s), will among others, promote increased transparency in trades, efficient pricing of transactions, higher professionalism of players in the fixed income markets and fair returns on pension fund investment, for the ultimate benefit of pension contributors and the Nigerian economy at large."

Whilst delivering the special address by FMDQ, Ms. Daisy Ekineh highlighted, "this day marks the formalisation of a partnership expected to be formidable and long-standing, as it will bring about integrity of service, assured investor protection and fair return on investments, serving to fundamentally change the way in which our financial markets operate to the benefit of the nation's investors, in particular, the pension assets, and ultimately the Nigerian economy. Today symbolises the realisation of the mutual desires of two remarkable institutions towards the revolutionisation of the pension industry as it impacts the Nigerian financial markets and the development of the nation's economy."

According to Mr. Bola Onadele. Koko, "this partnership will seek to achieve, among others, the Commission's objectives (as outlined in the Pension Reform Act, 2014), through data access and visibility of its supervisees' (Pension Fund Administrators (PFAs)) transactions on FMDQ; improved transparency of all PFAs' transactions in the Nigerian fixed income market, as well as the money market through the applicable system(s); capacity building sessions for relevant PenCom Staff on the use of the applicable system(s); and the development of performance benchmarks for fixed income asset classes: bonds (sovereign, sub-national and corporate), money market securities (treasury bills, commercial papers etc.) and fixed deposits."

FMDQ, in its unwavering commitment to support efforts to galvanise the development of the Nigerian economy, remains resolute in promoting an efficient, transparent and well-regulated financial market, which will attract and retain investors (domestic and foreign). PenCom, via this Agreement, will be conferred membership on FMDQ as an Affiliate Member (Regulators), providing the Commission with benefits including but not limited to data access and market visibility rights over the market activities of the Commission's supervisees within FMDQ and access to real-time pre- and post-trade prices on fixed income securities.

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FMDQ Holds 4th Annual General Meeting

FMDQ, as part of its company statutory requirements, held its fourth Annual General Meeting (AGM) on Friday, April 8, 2016, at the Intercontinental Hotel, Lagos.

The AGM, which began at 11:00 AM, considered, as part of its ordinary business, the presentation of the Financial Statements of the Exchange for the year ended December 31, 2015, together with the Report of the Directors and Auditors to the Shareholders. During the AGM, the Shareholders re-appointed the Auditor, Messrs. KPMG Professional Services, to serve as the company's External Auditors for another year, authorised the Directors to fix the External Auditors' remuneration and re-elected the members of the Audit Committee.

Welcoming the Shareholders to the AGM, the Chairman of FMDQ, Dr. (Mrs.) Sarah O. Alade, OON, recounted that 2015 had been a busy year for the Exchange as it worked hard to position itself as Nigeria's foremost debt capital market securities exchange. Speaking further, the Chairman stated that in 2015, FMDQ listed Federal Government of Nigeria (FGN) bonds and several corporate bonds, as well as quoted Nigerian treasury bills and commercial papers. The Exchange also successfully organised the FMDQ 2015 Nigerian Debt Capital Markets Workshop, as part of its contribution to the Nigerian financial market space. According to her, "FMDQ remains committed to initiating and engaging in initiatives that will develop and make the FMDQ markets globally competitive by improving liquidity, transparency, governance and efficiency in the markets in 2016."

The Managing Director/CEO of FMDQ, Mr. Bola Onadele. Koko, while commenting on FMDQ's financial performance, appreciated all stakeholders for their diverse contributions towards ensuring a successful 2015 for the Exchange. He promised that in 2016, FMDQ would not rest on its oars as it remained poised to consolidate on the progress already made to ensure that the Nigerian financial markets are continually empowered to be innovative and credible in support of the nation's economy.

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FMDQ Hosts Dealing Member (Specialists) CEO's

FMDQ, having identified the need and opportunity for the integration of non-bank financial institutions (NBFIs), completed the first phase of the Dealing Member (Specialists) (DMSs) membership application and activation process and is now half way through the 1-month dummy trading period. This dummy trading period has provided twenty-nine (29) Institutions the opportunity to familiarise themselves with the Trading System, "**FMDQ Q-Deal Proprietary System"** and a glimpse into how the DMS market will operate.

As part of efforts to ensure a successful DMS market, FMDQ hosted a session with the Managing Directors and CEOs of the NBFIs who are part of the dummy trading phase for a parley with the Managing Director/CEO of FMDQ. The Meeting, which held on April 22, 2016 at Radisson Blu Anchorage Hotel, Victoria Island, Lagos, commenced with a welcome address and presentation by Mr. Bola Onadele. Koko, Managing Director/CEO of FMDQ, followed by deliberations on, among others, the vision for the market, critical success factors, key requirements, milestones timelines, registration and capital requirements and augmentations to the Trading System.

The Meeting proved to be a very interactive and valuable one, providing the soon-to-be DMS CEOs the opportunity to make significant contributions towards the development of the DMS market.

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FMDQ Releases Complaints Management Framework

In accordance with the Securities and Exchange Commission ("SEC") Rules relating to the Complaints Management Framework in the Nigerian capital market, FMDQ has developed a Complaints Management Framework ("the Framework") to address complaints arising out of issues that are covered under the FMDQ Rules[1] made pursuant to the Investments and Securities Act 2007 and the SEC Rules and Regulations 2013, as well as other issues that arise in respect of activities conducted within the over-the-counter (OTC) markets under FMDQ's purview: fixed income (money, treasury bills, bonds, repos and commercial papers), currencies and derivatives.

The Framework is designed to ensure that complaints from FMDQ Members and/or their clients about the activities of the securities Exchange and its Members are managed in a fair, impartial, transparent and timely manner. It also seeks to support the primary objectives of securities regulation in any capital market as provided by the International Organisation of Securities Commissions, which are aimed at achieving ultimate protection for investors and reducing systemic risk in the markets.

FMDQ, in its capacity as a self-regulatory organisation in the Nigerian capital market, is vested with the authority to resolve the following complaints:

1. Complaints between FMDQ Members and their clients

[1] Includes Guidelines, Agreements and such other regulation as may be developed by FMDQ from time to time

2. Complaints amongst FMDQ Members
3. Complaints by FMDQ Members against the Exchange
4. Complaints against FMDQ Members by the Exchange
5. Such other complaints as may be determined by SEC from time to time

All FMDQ Members and their clients are hereby informed that all complaints that arise in respect of activities conducted within the FMDQ markets fall under FMDQ's regulatory purview and will be addressed by the Exchange accordingly.

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FMDQ Turnover & Dealing Member (Banks)' 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 Member (Banks), represents trades executed between the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the Central Bank of Nigeria (CBN).

FMDQ OTC Market Turnover (January - March 2016)

	Turnover (₦'mm)
Foreign Exchange	3,946,322
Foreign Exchange Derivatives	1,297,061
Treasury Bills	7,810,197
FGN Bonds	2,944,113
Other Bonds*	21,925
Eurobonds	21,795
Repurchase Agreements/Buy-Backs	6,099,848
Unsecured Placements/Takings	586,843
Money Market Derivatives	-
	22,728,105
USD equivalent (mm)	*114,517*
No. of Business Days	**60**
Average Daily Turnover	**378,802**
USD equivalent (mm)	*1,909*

mm - million
Note: USD/₦ @ 198.47
***Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds**
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ April 4, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to March 2016 amounted to ₦22.71trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 34%, secured market transactions (Repos/Buy-backs) accounted for 27%, while FX market transactions accounted for 17% and FGN bonds, 13%.

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Top Ten (10) Dealing Member (Banks) in FMDQ Market (January - March 2016)

The FMDQ League Table shows the rankings of its Dealing Member (Banks), and the cumulative value across all products traded on the Exchange.

Rank	Dealing Member (Banks)
1	Diamond Bank PLC
2	Access Bank PLC
3	Stanbic IBTC Bank PLC
4	United Bank for Africa PLC
5	Ecobank Nigeria Limited
6	First Bank of Nigeria Limited
7	Skye Bank PLC
8	Standard Chartered Bank Nigeria Limited
9	Union Bank of Nigeria PLC
10	Guaranty Trust Bank PLC

The top ten (10) Dealing Member (Banks) accounted for 74% (₦28.10trn) of the overall turnover in the market, with the top three (3) accounting for 32% (₦12.1trn) of this sub-section of the market. Diamond Bank PLC, Access Bank PLC and Stanbic IBTC Bank PLC ranked 1st, 2nd and 3rd respectively in their positions as the leaders in the value traded for the overall OTC market.

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FMDQ Learning

Introduction to the Securities Markets – Part 1

A security represents a means by which governments, companies, commercial enterprises etc. can raise capital, as well as an investment aimed at redistributing funds from those with excess to those in need of funds. The decision to raise capital could be for a number of reasons, such as, an organisation looking to expand its operations; the government looking to raise capital for infrastructural projects to build hospitals, schools or roads and entrepreneurs starting up new businesses. Whilst going directly to a bank to obtain a loan is also an option to raise capital, organisations decide to access the capital market in order to raise capital for various reasons and are faced with the decision of either raising the funds via issuing debt or equity securities.

What is a Security?

A security is a financial instrument issued by a business entity or government, which gives the buyer an ownership position or share in the earnings of the organisation, a right to interest payments or creditor relationship with the corporation or government. The entity that issues the security is known as the **issuer.**

Securities are typically categorised into:

- Debt
- Equity

Debt securities, also known as fixed income securities, are instruments used by the issuers of the securities as a source to borrow money, and include bonds, commercial papers, debentures etc. An entity looking to raise funds can sell (or issue) debt securities into the securities market instead of going to the bank to obtain a loan. Once these securities are issued, the issuing entity becomes indebted to the buyers of the securities. Essentially, a debt security represents money that is borrowed which must be paid back. The entity typically pays the investors a fixed rate of interest and the principal is payable at maturity, along with other contractual rights under the terms of issue. Debt securities are not centrally traded but are bilaterally traded OTC[2].

Equity securities refers to an instrument that signifies an ownership position in a corporation. An example of an equity instrument would be a common stock or a share, such as those traded on a stock exchange. Ownership in the company is determined by the number of shares a person/entity owns divided by the total number of shares outstanding, and therefore called equity[3]. The shares give the shareholders the right to participate in the decision-making process of the company. If the company is profitable, the shareholders may receive dividends, a decision which is taken at a General Meeting of the Shareholders. The table below details the key differences between debt and equity securities.

Key differences between Debt and Equity Securities

Debt Securities	Equity Securities
▪ Holders of the securities do not gain ownership in the issuing entity or have claims over their future profits but only receive interest and repayment of the principal from the issuer	▪ Holders of these securities (shares) gain ownership of the entity whose shares they hold and have claims on future earnings of that entity
▪ Considered to be less risky investments than equity securities investments as the debt market returns are less volatile than the stock market returns	▪ Considered to be riskier than debt securities as returns generally fluctuate and are more volatile
▪ Have a date of maturity in which borrowed funds are returned to the holders of the securities	▪ No period of expiry
▪ Mandatory interest payments and capital repayments are made to the holders of the securities	▪ Holders may get paid dividends however this is not a mandatory requirement

[2] OTC Markets will be explored in part two of this series
[3] Kimberley Amadeo (2015) Securities: Definition and the effect of the US economy

▪ In the case of bankruptcy, holders of these securities are paid first	▪ In the case of bankruptcy, holders are the last to be paid and share only in residual interest after all obligations have been paid out to creditors
▪ Holders of these securities are not entitled to any form of control of the company and do not have any voting rights	▪ Holders of equity securities are entitled to some control of the company/entity and maintain voting rights. They also have rights to any capital gains and profits of the company/entity

Debt and Equity securities can be used in an economy to attract new capital, transfer real assets in financial assets, determine the prices that balance demand and supply and provide an avenue to invest funds both short and long term.

A further discussion into the securities market will be examined in the second part of this series.

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