



# FMDQ SPOTLIGHT

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## ***New Stories***

### **FMDQ Releases Appeal Process for Penalties on Trading Infractions**

In furtherance of its mandate to provide an enabling environment for the growth and development of the Nigerian over-the-counter (OTC) financial markets, FMDQ OTC Securities Exchange (“FMDQ” or the “Exchange”) has developed an Appeal Process for Penalties on Trading Infractions (the “Appeal Process”) for trades carried out on its platform. The Appeal Process, as approved by the Board Regulation and Risk Management Committee (BRRMC), involves a three-level structure; starting at the Management level, through the Trading Infractions Appeal Committee, proceeding to the Board Committee level, through the BRRMC, and terminating with the Board of Directors of the Exchange.

The Appeal Process is designed to ensure proper management and adjudication of appeals made by aggrieved Dealing Member (Banks), in the event of a disagreement arising out of penalties imposed, based on the FMDQ E-Bond Trading Infractions and Penalties Guide.

The Appeal Process shall be read in conjunction with all FMDQ Rules including but not limited to the FMDQ OTC General Market Rules, FMDQ Codified Rule Books, FMDQ E-Bond Trading Rules, FMDQ E-Bond Trading Infractions and Penalties Guide and Disciplinary Procedure Rules.

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### **FMDQ Visits the House Committee on Capital Market & Institutions**

Driven by its “GOLD” (Global Competitiveness, Operational Excellence, Liquidity and Diversity) agenda for the transformation of the Nigerian markets, FMDQ continuously identifies key stakeholders and alliances, within the financial markets space, whose partnerships are pertinent to its achieving these set goals. It was on this premise that FMDQ paid a visit to the House of Representatives’ Committee on Capital Market & Institutions (the “House Committee”) on May 4, 2016. Led by the Managing Director/CEO, Mr. Bola Onadele. Koko, the FMDQ team was received by the members of the House Committee, led by its Chairman, Hon. Yusuf Tajudeen and Deputy Chairman, Hon. Tony Nwulu. The visit, which took place at the House of Representatives offices in Abuja, was aimed at initiating and building collaboration opportunities between the House Committee and FMDQ towards the development of the Nigerian capital markets.

The visit gave FMDQ the opportunity to present its mandate and initiatives to the House Committee and in turn, provided an avenue for the members of the Committee to gain more understanding of the Exchange’s agenda. As the Committee responsible for the oversight function on the conduct of Nigerian capital market regulators and institutions, the alignment of FMDQ’s agenda with the House Committee’s is pertinent to its successful delivery.

This engagement, amongst other key benefits, is geared at facilitating the implementation of key reform initiatives in the Nigerian Capital Market Master Plan (2015 – 2025), achievable only with the passage of relevant supporting laws and appropriate oversight of the financial markets regulators by the House Committee, thereby fast tracking the nation’s emergence as an international financial centre and lifting it to the realm of the top 20 global economies in line with the Nigeria’s Financial System Strategy (FSS) 2020 Vision.

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## **FMDQ Holds Inaugural Meeting for the Financial Market Support for Economic Development Workgroup**

FMDQ held the inaugural Meeting for the Financial Market Support for Economic Development (FMSED) Workgroup on May 17, 2016.

The Workgroup has been set up to address challenges facing the financial market in its role in supporting economic development in Nigeria and aims to articulate how financial market activities can be harnessed to foster sustainable economic development. Other objectives include, acting as a think-tank and driving an all-inclusive approach to the articulation of reforms and development of the financial market in support of economic development and advising same to the Central Bank of Nigeria (CBN) and Bankers’ Committee Sub-committee on Economic Development & Sustainability; to deliberate on other issues relating to the financial market in support of economic development as may be specified from time to time by FMDQ or any stakeholder, amongst others.

The Workgroup, chaired by Dr. Wura Abiola, Managing Director of Management Transformation Ltd., and made up of subject-matter experts and stakeholder institutions, met to discuss issues pertinent to the development of the economy and proffer solutions to such, through effective and efficient allocation of resources by the financial market. The Workgroup is expected to meet once every quarter.

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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)) and 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 amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

### **FMDQ OTC Market Turnover (January - April 2016)**

	<b>Turnover (₦'mm)</b>
<b>Foreign Exchange</b>	4,893,465
<b>Foreign Exchange Derivatives</b>	1,923,393
<b>Treasury Bills</b>	11,772,816
<b>FGN Bonds</b>	3,830,800
<b>Other Bonds*</b>	22,705
<b>Eurobonds</b>	22,699
<b>Repurchase Agreements/Buy-Backs</b>	8,971,962
<b>Unsecured Placements/Takings</b>	717,774
<b>Money Market Derivatives</b>	495
	<b>32,156,107</b>
<i>USD equivalent (mm)</i>	<i>162,077</i>
<b>No. of Business Days</b>	<b>85</b>
<b>Average Daily Turnover</b>	<b>378,307</b>
<i>USD equivalent (mm)</i>	<i>1,906</i>

mm - million

Note: USD/₦ @ 198.40

\*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 @ May 4, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to April 2016 amounted to ₦32.16trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 37%, secured market transactions (Repos/Buy-backs) accounted for 28%, while FX market transactions accounted for 21% and FGN bonds, 12%.

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## **Top Ten (10) Dealing Member (Banks) in FMDQ Market (January - April 2016)**

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks).

<b>RANK</b>	<b>DEALING MEMBER (BANKS)</b>
1	DIAMOND BANK PLC
2	ACCESS BANK PLC
3	STANBIC IBTC BANK PLC
4	UNITED BANK FOR AFRICA PLC
5	FIRST BANK OF NIGERIA LIMITED
6	ECOBANK NIGERIA LIMITED
7	SKYE BANK PLC
8	STANDARD CHARTERED BANK NIGERIA LIMITED
9	GUARANTY TRUST BANK PLC
10	UNION BANK OF NIGERIA PLC

The top ten (10) Dealing Member (Banks) accounted for 72% (₦39.38trn) of the overall turnover in the market, with the top three (3) accounting for 42% (₦16.62trn) of this sub-section of the market. Diamond Bank PLC, Access Bank PLC and Stanbic IBTC Bank PLC ranked 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> respectively, maintaining their positions as the leaders in the value traded for the overall OTC market. Other institutions also maintained their positions on the League Table with the exception of First Bank of Nigeria Limited, moving from 6<sup>th</sup> to 5<sup>th</sup> position, pushing Ecobank Nigeria Limited to 6<sup>th</sup> position and Guaranty Trust Bank PLC swapping 9<sup>th</sup> position with Union Bank of Nigeria PLC.

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## ***Upcoming Events***

### **First FMDQ “Members Only” Meeting for 2016**

As part of its commitment to develop the Nigerian financial markets and in recognition of the crucial roles its various stakeholders play in this development, FMDQ is thrilled to host its Members to the first FMDQ “Members Only” Bi-Annual Meeting for 2016.

Following on from the FMDQ “Members Only” Meeting held in December 2015, where discussions centered on FMDQ’s Market Architecture, which examined Market Development Initiatives and Stakeholder Engagement; the FMDQ Debt Capital Market (DCM) Development Project; New Membership Categories - the Affiliate Members and Dealing Member (Specialists); Proprietary Trading System(s); Resolutions on Deferred Decisions; and Other Business, including matters relating to Members’ Compliance and Complaints Reporting, the focus for this Meeting would be on the

current position of the market vis-à-vis decisions taken and recommendations made from the last Meeting, among other pertinent topics.

The Meeting, scheduled to hold on June 30, 2016, will also highlight new initiatives as they impact the market and provide for an interactive session where different players in the FMDQ market, represented by the Dealing, Associate and Registration Members of FMDQ, will deliberate on and make contributions towards the development of the OTC and DCM in Nigeria. More details of the Meeting will be communicated in due course. All Members are encouraged to attend.

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## ***FMDQ Learning***

### **Introduction to the Securities Markets – Part 2**

In the first part of this series, we explained what a security is, the typical types of securities (debt and equity) and highlighted their key differences<sup>1</sup>. This part of the series delves into the securities market itself, its functions, participants and different types.

#### **What is a Securities Market?**

A securities market is a place where buyers and sellers of securities can enter into transactions to purchase and sell securities such as shares, bonds, debentures, etc.

The primary function of a securities market is to exchange the demand for funds (those who have a productive need for them e.g. corporates) for the supply of funds (those with idle resources e.g. investors). Securities markets provide channels for the allocation of savings to investments and as a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively<sup>2</sup>. Securities markets encompass the equity, fixed income and derivatives markets where prices are determined and participants can meet.

Securities markets also enable the following:

- Ability for lenders and investors to locate securities which meet their objectives
- Provision of liquidity for securities traded within the markets' domain
- Attraction of new capital through the issuance of new securities

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<sup>1</sup> Please click on the link to access the first part of the Series – [Introduction to the Securities Markets – Part 1](#)

<sup>2</sup> Sunil Parameswaran (2011) Fundamentals of Financial Instruments: An Introduction to Stocks, Bonds, Foreign Exchange and Derivatives

- Financing for growing or new organisations
- Provision of market information about participants and traded instruments
- Facilitation of the transfer of ownership of securities from owners who no longer wish to retain their investments to those who desire to increase their investments
- Investment of funds for varying periods with the objectives of deriving profitability, diversification, etc.

### Securities Markets Participants

Participants in securities markets typically include:

- **Banks** – Institutions that help issuers access the securities markets via the issuance of securities
- **Buyers** - Institutions or individuals that seek a return on the funds they invest
- **Sellers** - Institutions or individuals that seek to raise funds to meet their financing needs or risk management objectives
- **Brokers** – Institutions that act as intermediaries between buyers and sellers of securities and charge commission for their services
- **Exchanges** – Markets where securities, commodities, derivatives and other financial instruments are bought and sold<sup>3</sup>
- **Clearing Houses** – Institutions that provide clearing and settlement services for securities transactions
- **Credit Rating Agencies** – Institutions that provide opinions on the credit worthiness of a company or security by indicating its credit quality as either investment grade or non-investment grade
- **Regulators** – Institutions that provide oversight functions in the securities markets, e.g. the Securities and Exchange Commission (SEC), who is the apex regulatory institution of the Nigerian capital market

### Types of Securities Markets

There are two (2) main types of securities markets:

- Primary Markets
- Secondary Markets

#### Primary Markets

The primary market is a market that facilitates the acquisition of new financial instruments by investors, both institutional and individual<sup>4</sup>. It is in this market that firms float stocks and bonds to the public for the first time. Companies, governments and other groups can obtain financing through

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<sup>3</sup> This will be discussed in more detail in the final part of the series.

<sup>4</sup> Sunil Parameswaran (2011) Fundamentals of Financial Instruments: An Introduction to Stocks, Bonds, Foreign Exchange and Derivatives



these debt or equity based securities. An equity issue to the public can be done via an initial public offering (IPO), which is a public issue made by an unlisted company for the very first time, who after making the issue, lists its shares on a securities exchange. Equity issues can also be done by private companies via private placements. Similarly, if the government were to raise funds by issuing treasury bills/bonds, this will be termed a primary market transaction.

Once a financial asset has been created and sold to an investor in the primary market, subsequent transactions in that instrument between two (2) or more investors are said to take place in the secondary market.

### Secondary Markets

The secondary market is a type of market where existing shares, debentures, bonds, options, commercial papers, treasury bills and other securities of corporates, governments, etc. are traded. This market enables the buying and selling of previously issued securities. The secondary market can either be an auction market where trading of securities is done through an exchange or a dealer market, popularly known as over-the-counter (OTC) where trading may be done without the exchange.

### Key Differences between the Primary and Secondary Markets

Primary Market	Secondary Market
<ul style="list-style-type: none"> <li>▪ This is the market for newly issued securities</li> </ul>	<ul style="list-style-type: none"> <li>▪ This is the market for previously issued securities</li> </ul>
<ul style="list-style-type: none"> <li>▪ Securities can only be sold once</li> </ul>	<ul style="list-style-type: none"> <li>▪ Securities can be sold numerous times</li> </ul>
<ul style="list-style-type: none"> <li>▪ Buying and selling of securities is between a company/government (the issuers) and investors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buying and selling of securities is between a variety of market participants including traders and investors</li> </ul>
<ul style="list-style-type: none"> <li>▪ Small investors are often not able to purchase securities directly because the issuer and its underwriter's/investment banks seek to sell all available securities in a short period of time, selling to large investors who can buy more at once</li> </ul>	<ul style="list-style-type: none"> <li>▪ Anyone can purchase securities as long as they have the ability to pay the price at which the securities are being traded</li> </ul>

In the final part of this series, we would delve deeper into the secondary markets, shedding more light on the key differences between the Exchange market and the OTC market.

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