FMDQ SPOTLIGHT

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New Stories

FMDQ Releases OTC FX Futures Market Framework and Operational Standards

The release of the Revised Guidelines for the Operation of the Inter-Bank Foreign Exchange (FX) Market (the "Revised FX Guidelines") by the Central Bank of Nigeria (CBN) on June 15, 2016 ushered in a new regime in the Nigerian FX market with the introduction of the Naira-settled OTC FX Futures as one of the approved products for hedging FX in Nigeria.

As a novel product in the Nigerian FX market, it became imperative for proper regulation and guidelines to be introduced to provide adequate governance and to support the market structure. These are articulated in the OTC FX Futures Framework (the "Framework") and the OTC FX Futures Market Operational Standards (the "Standards") developed by FMDQ OTC Securities Exchange ("FMDQ" or the "Exchange").

The Framework seeks to ensure that the product is applied to hedge legitimate foreign exchange risk exposures (i.e. backed by eligible trades/transactions with foreign currency obligations) and not as a mechanism for speculation and trading by end-users. The Framework is also designed to ensure all participants in the OTC FX Futures market have an understanding of the market features and modalities. Consequently, it provides a detailed description of the market features, and the market and operational structures - with the market structure highlighting contract tenors, stakeholders in the market and the adopted trading system, among others; and the operational structure focusing on the trading conventions, eligible margin collateral, margining process, and settlement process for maturing contracts.

The Standards outline, among others, the eligibility criteria for transactions to gain access to the OTC FX Futures market and the attendant documentation requirements; duties and obligations of the transaction counterparties [i.e. the CBN and Dealing Member (Banks) ("DMBs")], as well as the Clearing Agent – the Nigeria Inter-Bank Settlement System PLC (NIBSS); trading standards and the settlement process; margining requirements; conditions for externalisation of transaction proceeds by clients; and the penalties for breach of the Standards. The ultimate objective of the Standards is to set out the guidelines for the effective administration of the OTC FX Futures market and support the mandate of FMDQ to promote transparency, liquidity, price formation and diversification in the Nigerian FX market.

The Standards, which received the endorsement of the CBN on July 27, 2016, were revised on August 24, 2016. These Standards have been developed following extensive consultations with the CBN, DMBs and other stakeholders to assess the robustness of the embedded controls, the practicality of the Standards and alignment with the Revised FX Guidelines. The Standards shall be read in conjunction with the Framework, the Revised FX Guidelines, relevant CBN Circulars on the OTC FX Futures market and any FMDQ OTC Market Bulletin or Market Notice made pursuant to the Standards; and shall be reviewed periodically to ensure alignment, as much as practicable, with global best practices.

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CBN Directs Authorised Dealers to execute all FX Trades with Corporates on FMDQ-advised FX Trading and Surveillance Systems

In line with efforts geared towards the repositioning of the Nigerian FX market, and in its bid to promote transparency, professionalism and integrity in the market, the CBN in July, issued a directive to all Authorised Dealers mandating that they execute all FX trades with corporate clients only through the FMDQ-advised Trading & Surveillance System.

The System, which is the FMDQ-Thomson Reuters Foreign Exchange Trading System (TRFXT) is being deployed to, among others, enhance system-based dealing for FX (trading & surveillance) and provide the much needed credibility and transparency for all FX trades, whilst acting as a robust information depository, lending itself as an indispensable tool for the regulators.

This welcome move towards the resuscitation of the Nigerian FX market serves to restore confidence, as improved transparency is a major precursor for further inflows into the market, invariably improving the liquidity of the market. This is well in line with FMDQ's mandate of making the Nigerian financial market globally competitive and liquid.

To this end, FMDQ has launched an onboarding process aimed at ensuring a seamless integration of all relevant stakeholders to the TRFXT. All Authorised Dealers are compelled to comply. Corporates wishing to commence the onboarding process should contact bog@fmdqotc.com for more information.

Click here to view FMDQ onboarding process
Click here to view the CBN Circular

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Mandatory Quotation of Commercial Papers on FMDQ

In line with its commitment to govern and uphold the integrity of the Nigerian financial market, the CBN, in July, released a guideline mandating that all deposit money banks in Nigeria deal only in Commercial Papers (CPs) registered and quoted on authorised securities exchanges. Accordingly, banks are therefore prohibited from transacting in CPs that are not quoted or intended for quotation on an authorised securities exchange, in any capacity whatsoever. FMDQ is currently the only securities exchange authorised by the CBN for the quotation of CPs in Nigeria, following its approval of the FMDQ Commercial Paper Quotation Rules.

FMDQ, as the market organiser for the fixed income, foreign exchange and derivatives markets, is desirous of building a sustainable CP market in the Nigerian financial market landscape and so promotes credibility for quoted CPs through a highly efficient registration process, and institutes requisite financial market infrastructures in line with global standards, to drive transparency, governance, market oversight, credibility and market liquidity, with a view to protecting stakeholder interests.

Click here to view the CBN Circular

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Inflow from Foreign Portfolio Investors as Second OTC FX Futures Contract Matures and Settles on FMDQ

The Nigerian FX market received $270.00mm worth of foreign portfolio investment from a single transaction in the month of August, a direct consequence of the CBN's innovative product, the OTC FX Futures, launched at the end of June 2016 to address the issues in the FX market, not least of which is the lack of supply. This is very positive news for the Nigerian FX and fixed income markets as this is a strong indication that FPIs are gradually coming back to the Nigerian financial market, and is indeed encouraging feedback on the viability of the OTC FX Futures market as it successfully marked its 2nd month in operation in the week ending August 26, 2016.

In line with the OTC FX Futures Market Framework and the FMDQ OTC FX Futures Market Operational Standards, the 2nd OTC FX Futures contract, NGUS AUG 24 2016, with a total of $152.48mm outstanding at $/₦310, matured and settled on Wednesday, August 24, 2016. The valuation was benchmarked by FMDQ against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate. Clearing operations and settlement for the final amounts, were effected through NIBSS, in its capacity as the FMDQ-designated Clearing Agent, for the margining and settlement of the OTC FX Futures contracts.

The August 24, 2016 matured contract was replaced by the CBN with a new 12-month contract, NGUS AUG 16 2017, with a notional amount on offer of $1.00bn at $/₦241. In addition, the CBN refreshed its quotes and published new rates on the existing 1-month to 11-month contracts, as shown on the FMDQ website.

Circa $3.00bn worth of the OTC FX Futures contracts offered by the CBN, across all the tenors, with the profile of the contract buyers including Authorised Dealers, Foreign Portfolio Investors and importers, among others, have been traded. The significant increase in turnover clearly shows the receptiveness of the transaction counterparties and end-users to the product.

The Naira-settled OTC FX Futures product has also continued to pave the way for corporates to enhance business planning whilst effectively hedging their FX risk, as the CBN continues to relentlessly spearhead initiatives in the FX market, promoting transparency, credibility, professionalism etc., towards an effective, liquid and efficient market.

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FMDQ Listings & Quotations

FMDQ Admits ₦16.79bn UPDC PLC Commercial Paper to its Platform

Having successfully met the requirements as contained in the FMDQ Commercial Paper Quotation Rules (the Rules), and subsequent to the approval of the FMDQ Board Listings, Markets and Technology Committee, the UACN Property Development Company (UPDC) PLC ₦16,799,893,000.00 CP (UPDC CP) was admitted for quotation on FMDQ. This is another notable stride in FMDQ's drive to create a vibrant and successful CP market, as UPDC became the fifth issuer of a CP admitted for quotation on FMDQ following the release of the Rules. This CP represents series 1 under the organisation's ₦24,000,000,000.00 CP Issuance Programme. In commemoration of this quotation, a Quotation Ceremony was held on Monday, August 8, 2016, at the FMDQ offices, to formally welcome the CP on the Exchange.

Amongst the attendees at this prestigious Ceremony were, Mr. Hakeem Ogunniran, Managing Director UPDC PLC, representing the issuer of the CP; Mr. Kayode Akinkugbe, Chairman & Director, FBN Capital Limited and Mr. Abubakar Jimoh, Managing Director/CEO, Coronation Merchant Bank Nigeria Limited, represented by Mr. Aigbovbioise Aig-Imoukhuede, Executive Director, Coronation Merchant Bank Nigeria Limited, both FMDQ Registration Members (Quotations) and co-sponsors of the issue on the platform. Highlights of the Ceremony included the signing of the FMDQ CP Quotations Register, the presentation of the FMDQ CP Quotations Certificate to the issuer and the signing of the issuer's autograph, among others.

In his remark, Mr. Bola Onadele. Koko, Managing Director/CEO, FMDQ, congratulated UPDC PLC and highlighted that the quotation of this real sector CP, was evidence of the positive progression in the Nigerian CP market, serving to instill confidence in the possibilities of the Nigerian financial market. He stated that FMDQ, as the market organiser, desirous of building a sustainable CP market in the Nigerian financial market space, promotes credibility for quoted CPs, through a highly efficient registration process and the provision of invaluable information, serving to drive, among others, transparency, liquidity and integrity.

Ahead of the signing of the FMDQ CP Quotations Register and the presentation of the FMDQ CP Quotations Certificate, Mr. Ogunniran, in his address acknowledged that the CP issuance had afforded UPDC a better opportunity to successfully diversify its short-term funding sources at a 25% reduced cost, thereby enhancing their value-creating capability for UPDC's various stakeholders.

Also speaking at the Ceremony, Mr. Akinkugbe noted, "the remarkable success of the UPDC PLC CP issuance is an affirmation of the growth of the CP market in recent years. We are indeed pleased to have partnered with UPDC in establishing its inaugural CP Programme and achieving the significant oversubscription recorded at its debut launch. The success of the deal was influenced by the innovative credit enhancement features developed by FBN Capital Limited and Coronation Merchant Bank Limited. As is with all our transactions in FBN Capital Limited, the UPDC PLC CP benefitted from an active and vibrant marketing strategy aimed at achieving wide distribution."

In a statement, Mr. Jimoh cited that, "Coronation Merchant Bank is happy to be part of this landmark and novel transaction. We successfully offered our superior transaction structuring capabilities to UPDC by jointly providing a liquidity back-stop facility to enhance the Commercial Paper, offering alongside the partial corporate guarantee provided by UACN, UPDC's parent company. These credit enhancements boosted the rating of the paper to an A- (investment grade) rating assigned by Agusto and Co., demonstrating the bank's strong ability to provide innovative financing solutions and also lend its robust securities distribution capabilities to its clients."

As a securities exchange committed, as one of its mandates, to powering the growth of the Nigerian housing sector through the debt capital market, FMDQ is continually innovating and engaging key stakeholders towards promoting an efficient, transparent and well-regulated market, which will attract and retain domestic and foreign investors.

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Listing of the ₦0.60bn C & I Leasing PLC Bond on FMDQ

Barely a week into the formal admittance of the ₦16.79bn UACN Property Development Company PLC CP, FMDQ welcomed another listing – the C & I Leasing PLC ₦600,000,000.00 18.25% Fixed Rate Bond - on its platform. To this end, the Exchange again played host to the issuer, represented by the Managing Director of C & I Leasing PLC (C&I), Mr. Andrew Otike-Odibi, as well as the sponsor of the Bond on the platform, FMDQ Registration Member (Listings), WSTC Financial Services Limited, represented by the Managing Director/CEO, Mr. Tofarati Agusto, among others, to a prestigious Listing Ceremony.

As is customary of FMDQ Listing Ceremonies, the C & I Leasing PLC Bond Listing Ceremony, which held on Tuesday, August 16, 2016, was given the well-deserved accolades, including among others, the signing of the FMDQ Bond Listings Register, presentation of the FMDQ Bond Listing Certificate, and the autographing of the FMDQ Bond Listing Wall of Fame.

Delivering the welcome address, Ms. Tumi Sekoni, Vice President & Divisional Head, Marketing & Business Development, FMDQ, congratulated the issuer and all parties to the listing of the C & I Leasing PLC Bond, and highlighted that FMDQ's listing service had been tailored to provide, among others, a unique opportunity for issuers to raise the profiles of their issues and access a deep pool of capital, thereby meeting their long-term funding needs. She further stipulated that the Exchange, in line with international best practices, would provide continuous information disclosure on the C & I Leasing Bond, including price/value data and detailed issuers'/issues information to stakeholders via the Quotations page on the FMDQ website. In addition, to promote an efficient and well regulated market, which will attract and retain both domestic and foreign investors, improve price discovery and transparency for issuers, dealers, regulators and the general public, the Bond shall be included on the FMDQ-Bloomberg E-Bond Trading System.

In delivering his special address, Mr. Otike-Odibi, commented that, ''the current operating environment presents both opportunities and challenges, and as a leading player in the support services industry, an offer of this nature will provide additional capital to enable us expand our marine business operations, repay existing credit facilities and meet working capital obligations which will ultimately lead to more profitability and growth in market share guided by a robust risk management framework and strong corporate governance. We remain committed and focused on the fundamentals of our business which are efficiency and service delivery whilst intensifying efforts to boost our revenue generating profile from our other businesses and reduce credit exposures to volatile segments of the market."

Following the presentation of the Listings Scroll to the FMDQ Registration Member (Listings), Mr. Agusto stated, "coincidentally, C & I Leasing PLC and WSTC Financial Services Limited were pioneer finance houses as both commenced operations in 1991 and were amongst a handful of those that survived the monumental crash of the industry in 1993. It is to the credit of the Board and Management of C&I that the company, very early, subjected itself to the discipline of public listing and evolved to be a preeminent leasing company in Nigeria. The growth of C&I is the result of focused and disciplined Management and the FMDQ platform has deepened its access to the financial market. We congratulate FMDQ and C&I on this historic listing."

FMDQ, through the concerted efforts of its varied stakeholders, has continued to facilitate growth and development in the Nigerian financial market, with specific focus on the debt capital market, and the Nigerian economy at large. The Nigerian DCM continues to make essential strides towards its development and the listing of the C & I Leasing PLC Bond on FMDQ marks another milestone in this certain development.

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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). 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 – July 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	9,006,371	39,498
Foreign Exchange Derivatives	4,743,603	20,803
Treasury Bills	22,878,452	100,335
FGN Bonds	5,457,724	23,935
Other Bonds*	28,530	125
Eurobonds	32,728	144
Repurchase Agreements/Buy-Backs	17,723,086	77,726
Unsecured Placements/Takings	1,808,924	7,933
Money Market Derivatives	495	2
Total	**61,679,912**	**270,502**
No. of Business Days	147	147
Average Daily Turnover	**419,591**	**1,840**

mm- Million
USD/₦ @ 228.02
*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 @ August 5, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to July 2016 amounted to ₦61.68trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 37% of the market. Secured market transactions (Repos/Buy-backs) accounted for 29%, while FX market transactions accounted for 22%, FGN Bonds, 9% and Unsecured Placement & Takings, 3%, of overall market turnover.

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

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

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

The top ten (10) Dealing Member (Banks) accounted for 70% (₦74.12trn) of the overall turnover in the market, with the top three (3) accounting for 40% (₦29.88trn) of this sub-section of the market. Access Bank PLC, United Bank for Africa PLC and Stanbic IBTC Bank PLC topped the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall over-the-counter (OTC) market. United Bank for Africa PLC moved up from 4th to 2nd place, pushing Diamond Bank PLC from 2nd to 4th place. Other institutions maintained their positions on the League Table with the exception of First City Monument Bank Limited, moving up the League Table from the 11th to 8th position, and pushing Union Bank of Nigeria PLC, previously in 8th place to occupy 9th place.

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FMDQ Learning

Sukuk in Nigeria: Where are we?

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines Sukuk as "securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets." Sukuk securities are required to strictly adhere to Islamic laws (Sharia principles) which prohibit the charging or payment of interest. Every Sukuk must be rated by a rating agency and also certified by at least one reputable Islamic scholar.

With the emergence of Islamic finance as a widely accepted funding alternative in the global financial system, Sukuk (Islamic bonds) have emerged as a key capital market instrument used by issuers to meet their financing requirements. In the latest report published by International Islamic Financial Market, annual global Sukuk issuance has grown from $1.20bn in 2001 to $60.70bn in 2015. The Sukuk market has seen new issues occurring from traditional hubs in Malaysia and Indonesia to non-traditional hubs such as Germany and Luxembourg. Across the globe, issuers ranging from sovereigns, quasi-sovereigns, Islamic and non-Islamic financial institutions have issued Sukuk under various structures which include debt-based, equity-based, agency-based and lease-based structures.

Over the years, numerous Sukuk structures have been used in the industry. Some popular structures include:

- **Sukuk Ijarah:** used for the purchase of assets which are then leased to the issuer. Investors are then paid a lease rental rate for the duration of the Sukuk
- **Sukuk al-Musharakah:** used to provide financing for a partnership or project. Investors then share profit or loss with the issuer, as agreed at the initiation of the contract
- **Sukuk Murabaha:** used to finance purchase of goods for the issuer. Debt repayments are made to the investors through the duration of the contract

In 2013, Osun State Government issued the very first Sukuk in the Nigerian debt capital market. Following the ₦13.40bn Ijarah (lease) Sukuk by Osun State, the Securities Exchange Commission (SEC) came up with a 10-year Non-Interest Capital Market Plan. The Plan states that Sukuk should constitute 15% of the overall debt market by 2025, however, the Osun State Sukuk remains the only Sukuk issued in Nigeria since its listing in 2013.

Globally, the growth of the Sukuk market has typically been characterised by a sovereign issuance followed by a quasi-sovereign issuance, before the emergence of a corporate issuance of Sukuk. It is on this premise that industry experts believe that the Sukuk market in Nigeria should fully kick-off upon the issuance of a Sukuk by the Federal Government of Nigeria (FGN) via the Debt Management Office. Following the recent issuance of Sukuk by its West African neighbors, Cote D'Ivoire ($511.00mm) and Togo ($255.00mm), demand for Sukuk issued by Nigeria is expected to be strong.

The development of the Sukuk market in Nigeria is also interwoven with the development of non-interest finance institutions (NIFIs) such as banks, insurance (Takaful) and asset management companies. NIFIs in Nigeria suffer from non-availability of short-term and long-term Islamic financial securities. At an Islamic Liquidity Management seminar, the Kuwait Central Bank Governor, Mohammad al-Hashel said: "A key issue is the absence of secondary markets that provide a proven record of being a reliable source of liquidity at all times."

A Sukuk issuance by the FGN is expected to serve as a huge boost for the Nigerian Islamic finance industry, particularly the Sukuk market, as it will provide Islamic financial institutions with the much needed Sharia compliant securities. With the FGN's desire to bridge its infrastructure gap combined with the tough fiscal challenges currently faced, the issuance of a Sukuk will provide additional funding sources as an increasing number of investors are likely to show high interest in the Sukuk issue.

Just like other rational investors, majority of investors in Sukuk will base their decisions on yield, credibility of the issuer, rating and liquidity of the Sukuk. It has been observed that Sukuk issued in developing Islamic financing hubs are typically not liquid, therefore, industry stakeholders must lead the advocacy to ensure that majority of the Sukuk issued in Nigeria are structured in a manner which permits them to be tradeable in the secondary markets. Since Sharia laws demand that debt-based Sukuk can only be traded at par, it is essential that Sukuk issued in Nigeria are structured as either lease-based or equity based Sukuk.

The SEC, alongside notable securities exchanges such as FMDQ, are leading the Islamic finance advocacy across the country and as a result, awareness about Sukuk and Islamic finance in Nigeria is gradually increasing amongst financial market participants and the general public.

On a final note, the industry stakeholders must increase their advocacy and engagement with one another to ensure the growth of the Sukuk sector of the Nigerian debt capital market and Islamic finance industry, as this would lead to a more varied and robust Nigerian capital market.

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