FMDQ SPOTLIGHT

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New Stories

FMDQ Set to Commence Listing of Short-Term Bonds

As an innovation-driven Exchange focused on powering growth, through product and market development, FMDQ OTC Securities Exchange (”FMDQ” or “the Exchange”) had, following extensive consultations with stakeholders in the Nigerian financial market space, identified the funding gap for corporates, between the money market debt instruments such as commercial papers with maximum tenors of two hundred and seventy (270) days and the traditional medium- to long-term debt securities (e.g. bonds) which are typically issued for three (3) years and above. To this end, and to support an even greater inclusion and participation of corporates in the Nigerian debt capital market (DCM), FMDQ, through its various engagements, is delighted to introduce Short-Term Bonds (STBs) to the Nigerian fixed income market.

STBs are essentially short-term debt securities issued by corporate entities, for tenors of between one (1) year and not exceeding three (3) years. In addition to bridging the funding gap between short- and medium- to long-term debt securities, STBs are designed to serve the liquidity needs of the medium to large creditworthy corporates and commercial entities by providing an alternative/competitive source of financing to bank loans. Also, STBs are beneficial to the DCM as they will serve to boost the investment product bouquet for the buy-side (which comprises of, amongst others, the Pension Fund Administrators), offshore investors and other market participants.

Furthermore, the Commission also approved the FMDQ Short-Term Bonds Registration Process and Listing Rules (STB Rules), which were developed in furtherance of FMDQ’s commitment to provide effective market regulation and governance for the markets under its purview. The STB Rules serve as a guide to issuers, STB sponsors and the investing public, amongst others, and outline the governance structure for STB issuances as well as the procedure for the registration of prospective STB issuances. As a consequence of SEC’s approval of the STB Rules, FMDQ will serve as the Exchange through which the primary due diligence for all STB issuances shall be conducted, consequently ensuring an expedited time to market; and also, provide its efficient platform for the registration and listing of all STBs.

The SEC and FMDQ are in the final stages of concluding the operational modalities for the process, after which the STB Rules will be published.

For additional information on this new product, kindly email bog@fmdqotc.com.

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Fourth OTC FX Futures Contract Matures and Settles on FMDQ

Four (4) months into the launch of the Naira-settled OTC FX Futures market, the 4th OTC FX Futures contract, NGUS OCT 26 2016, with notional amount $270.63mm, matured and settled on FMDQ on Wednesday, October 26, 2016. This brings the total value of matured contracts on the Exchange to circa $629.77mm, with about $4.00bn worth of OTC FX Futures contracts traded so far.

The contract, which stopped trading on October 18, 2016, in line with the FMDQ OTC FX Futures Market Operational Standards, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate published by the Exchange on the maturity date, and the associated clearing/settlement effected by the Nigeria Inter-Bank Settlement System PLC (NIBSS). Accordingly, and as was the case with the first three (3) maturities, the Central Bank of Nigeria (CBN) repriced its quotes, on the existing 1-month to 11-month contracts and introduced a new 12-month contract, NGUS OCT 25 2017, for $1.00bn at $/₦258.50.

With the OTC FX Futures product in its 4th successful trading month, businesses remain inclined to trading in the Naira-settled OTC FX Futures contracts to hedge their foreign currency exposures and significantly improve business planning. The value-add of playing in the OTC FX Futures market has become even more emphasised, evidenced by the over $4.00bn worth of open OTC FX Futures contracts offered by the CBN, across all the tenors, and traded on FMDQ. The product's receptiveness by market participants/end-users remains steady as the profile of the contract buyers continues to include Authorised Dealers, Foreign Portfolio Investors and importers, among others.

As CBN continues to drive other initiatives aimed at boosting the Nigerian FX market, the OTC FX Futures product remains a reliable opportunity for corporates and businesses to effectively hedge their FX rate risk.

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FMDQ Listings & Quotations

₦14.98bn FSDH Merchant Bank Commercial Paper Admitted on FMDQ's Platform

Despite the challenges currently beleaguering the Nigerian business environment, FSDH Merchant Bank Limited (FSDH) has successfully issued circa ₦14.98bn worth of commercial papers (CPs). The CPs represent series 1 and 2 under FSDH's ₦30.00bn CP Issuance Programme and have also been successfully admitted and quoted on FMDQ. A Quotation Ceremony was held at the FMDQ offices on Thursday, October 27, 2016, to commemorate and formally welcome the issues.

Present at this Ceremony were, Mr. Rilwan Belo-Osagie, Managing Director, FSDH, representing the issuer of the CP; Mr. Kobby Bentsi-Enchill, Executive Director and Head, Debt Capital Market, Stanbic IBTC Capital Limited, the FMDQ Registration Member (Quotations) and sponsor of the issues on the platform; and representatives of United Capital PLC, the CP arrangers, among others. 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 CP issuer's autograph.

Mr. Bola Onadele. Koko, Managing Director/CEO, FMDQ, whilst congratulating FSDH, remarked that the successful issuance of the CPs at such a time was testament to the increasing confidence in the possibilities of the Nigerian DCM. According to him, "At FMDQ, we are positive about the potential of a fully-functional DCM in building a sustainable economy, and will continue to support and streamline the market processes and infrastructure, as may be necessary, to support issuers and investors, towards achieving an operationally excellent and competitive DCM."

Ahead of the signing of the FMDQ CP Quotations Register and the presentation of the FMDQ CP Quotations Certificate, Mr. Belo-Osagie, in his address stated that, "The CPs are being quoted on the FMDQ platform in line with the requirements of the CBN, but more importantly, to facilitate active secondary market trading of the CPs. FSDH was very active in the CP market prior to its suspension by the CBN in 2009 and the quotation of the ₦14.98bn Series 1 and 2 CPs serves as an opportunity for FSDH to restate its presence and significance in the money market, and participate in the development and deepening of the CP market under the CBN's revised regulations. The establishment of FMDQ has contributed significantly to the growth in liquidity and transparency of the Nigerian fixed income market and FSDH is committed to supporting the growth of this market through the FMDQ platform."

Also speaking at the Ceremony, Mr. Bentsi-Enchill noted, "We are excited about the growth in the CP market. Over the past two years, we have witnessed a remarkable increase in the number of issuances in the CP market and we are proud to be pivotal to the development of this market. An increase in the number of CP issuances with a quotation on the FMDQ platform is vital to creating liquidity in secondary market trading of CPs. We are exceptionally pleased to have worked with FSDH in setting up its maiden CP Programme and the successful debut issuance of ₦14.98bn across Series 1 and 2. We are also pleased to sponsor the quotation of the FSDH CP on the FMDQ platform. FSDH has demonstrated its commitment to the growth of the fixed income market by its decision to complement its funding requirements by accessing the money and capital markets in Nigeria."

With its robust and efficient platform for the registration, listing and quotation of debt securities (bonds, CPs, mutual funds, etc.), FMDQ has progressively continued to champion and effectively support initiatives aimed at boosting the growth and development of the Nigerian DCM and the nation's economy at large. From product and market development, to surveillance and regulation, FMDQ actively collaborates with its varied stakeholders to ensure its mandate of making the Nigerian financial market globally competitive, is realised.

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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 – September 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	11,271,115	46,330
Foreign Exchange Derivatives	7,543,641	31,008
Treasury Bills	30,125,864	123,832
FGN Bonds	6,519,166	26,797
Other Bonds*	32,505	134
Eurobonds	41,526	171
Repurchase Agreements/Buy-Backs	24,362,926	100,144
Unsecured Placements/Takings	2,402,114	9,874
Money Market Derivatives	15,870	65
Total	**82,314,726**	**338,354**

No. of Business Days	190	190
Average Daily Turnover	433,235	1,781

mm- Million
USD/₦ @ 243.28 (This represents the weighted average rate from the beginning of the year)
*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 @ October 6, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to September 2016 amounted to ₦82.31trn. 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 30%, whilst FX market transactions accounted for 23%, FGN Bonds, 8% and Unsecured Placement & Takings, 3%, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Market (January - September 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	First Bank of Nigeria Limited
5	Ecobank Nigeria Limited
6	Diamond Bank PLC
7	Citibank Nigeria Limited
8	First City Monument Bank Limited
9	Standard Chartered Bank Nigeria Limited
10	Union Bank of Nigeria PLC

The top ten (10) Dealing Member (Banks) accounted for 71% (₦100.07trn) of the overall turnover in the market, with the top three (3) accounting for 28% (₦38.82trn) of this sub-section of the market. Access Bank PLC, United Bank for Africa PLC and Stanbic IBTC Bank PLC maintained their positions at the top of the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall OTC market. First Bank of Nigeria Limited and Ecobank Nigeria Limited moved up the League Table to occupy the 4th and 5th positions respectively, from the previous positions held at 5th and 6th places. Diamond Bank PLC, on the other hand, was displaced by First Bank of Nigeria Limited, moving from 4th to 6th place. Citibank Nigeria Limited made an entry this month, to occupy the 7th position from 11th in the previous month, consequently displacing Guaranty Trust Bank PLC from its previous position held at 10th place to 11th place.

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Upcoming Event

Second 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 second FMDQ “Members Only” Bi-Annual Meeting for 2016.

The Meeting, scheduled to hold on December 16, 2016, will 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 FMDQ markets and the Nigerian financial market at large. More details of the Meeting will be communicated in due course. All Members are encouraged to attend.

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FMDQ Learning

Principles Guiding the Structuring, Issuance and Trading of Sukuk – Part 2

According to the 2016 Sukuk Report issued by Bahrain-based International Islamic Financial Market (IIFM), US$60.60bn worth of Sukuk were issued in 2015. To generate returns for investors, Sukuk structures rely on either the performance of an underlying asset or a contractual arrangement with respect to that asset.

In part 1 of this series, as published in the September 2016 edition of the Newsletter, we looked at the definition of Sukuk and how it differs from conventional bonds listed in the DCM. Further to this, was the review of the classifications for the various Sukuk types, the Sharia principles for structuring these and the associated legal documentation required.

In the concluding part of this series, we provide a breakdown of some of the Sukuk structures used in the Islamic Finance capital markets.

1. **Sukuk Ijarah**

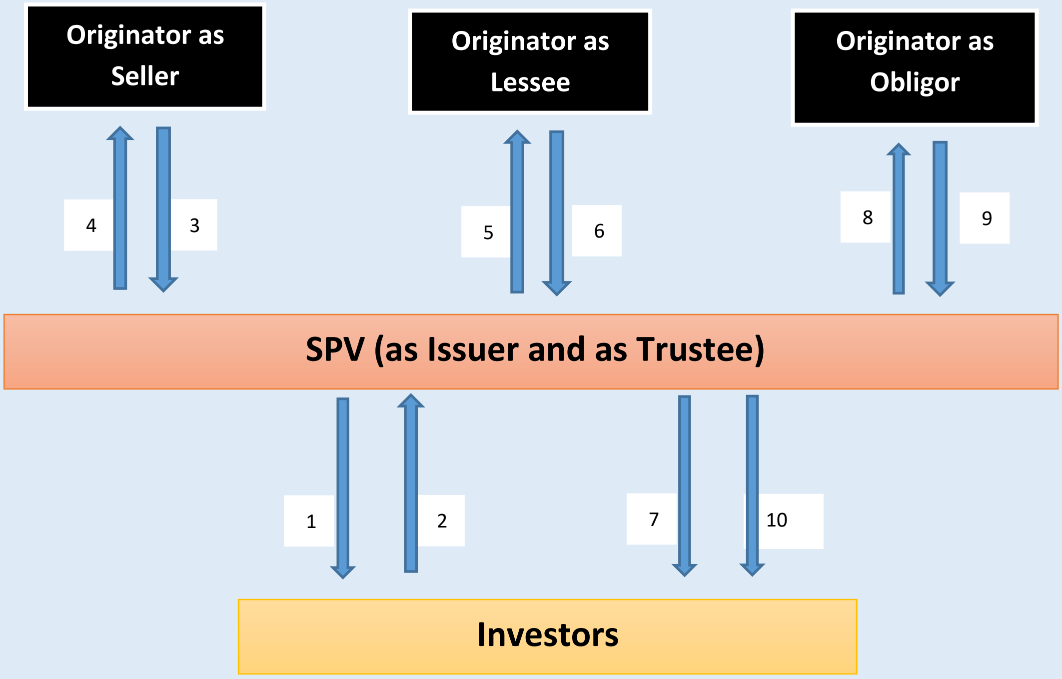
An Ijarah, considered as the basis on which all other Sukuk structures were developed, is simply a type of contract whereby a lessor leases out an asset to a lessee at an agreed rental fee and for a pre-determined lease period. The agreed rental fee in an Ijarah contract may be either fixed or floating, provided, in the case of a floating contract, the floating fee is based on a pre-agreed computation.

Sukuk Ijarah, therefore, involves the transfer of ownership of tangible assets from an originator to a special purpose vehicle (SPV), which then issues Ijarah certificates to investors representing undivided ownership interests in such assets. Since Ijarah contracts represent lease receivables and not debt receivables, they are permissible for trading on secondary markets under Sharia Law.

The popularity of Sukuk Ijarah is easily attributed to its straightforward structure, compliance with Sharia Law and tradability on secondary markets.

Figure 1 shows the flowchart of a Sukuk Ijarah transaction.

Figure 1: Flowchart of a Sukuk Ijarah Transaction



Adapted from "Dubai International Finance Centre (DIFC) Sukuk Guidebook, 2009 - Clifford Chance"

The above-illustrated steps describe the flow of a Sukuk Ijarah transaction throughout the life of the security. These steps are further articulated as outlined below:

1. The SPV (as the issuer) issues Sukuk Ijarah certificates to investors
2. Investors pay cash proceeds (representing principal amount of the Sukuk Ijarah) to the SPV (as the issuer)

Thereafter, the SPV (now acting as a trustee, on behalf of the investors), declares a trust over the proceeds and any assets acquired with the proceeds.

The next steps then follow:

3. The originator (as the seller) enters a sale and purchase agreement with the SPV
4. The SPV pays the purchase price of the assets to the originator (as the seller)
5. The SPV leases the assets back to the originator under an Ijarah arrangement for a period that reflects the tenor of the Sukuk Ijarah

6. The originator (as the lessee) makes rental payments at agreed regular intervals to the SPV
7. The SPV pays each periodic distribution amount (coupon) to the Sukuk Ijarah investors, using the rental payments it has received from the originator (as the lessee)
8. Upon maturity, the originator buys back, from the SPV) the assets underlying the Sukuk Ijarah at an amount representing the principal value of the Sukuk Ijarah
9. The originator (now as the obligor) pays the principal amount of the Sukuk Ijarah to the SPV
10. The SPV transfers the principal amount it has received to the investors, signifying the end of the Sukuk Ijarah transaction

At the end of every Sukuk Ijarah transaction, the originator purchases the underlying Sukuk Ijarah assets from the SPV, who then transfers cash proceeds received to the investors. The proceeds received are sometimes called the 'Dissolution Amounts'.

Other underlying contracts upon which Sukuk can be structured include, but are not limited to, Musharakah, Mudarabah, Murabaha and Wakala.

2. **Sukuk Musharakah**

The Musharakah structure for Sukuk is suitable if the originator does not own tangible assets and therefore cannot raise capital via Sukuk Ijarah. In this case, investors, alongside the issuer, will contribute to the raising of capital for the execution of a project. Profit will be split at a pre-agreed ratio; however, losses will be shared at the ratio of initial capital contribution. Sukuk Musharakah are tradeable on secondary markets.

3. Sukuk Mudarabah

This structure of Sukuk is very similar to the Musharakah structure, with the major difference being that only the investors contribute capital whilst the issuer provides the expertise to manage the project execution. Profit is shared at a pre-agreed ratio while losses are borne solely by the investors. The equity-like structure of Mudarabah makes them also tradeable on secondary markets.

4. **Sukuk Murabaha**

In a Sukuk Murabaha, the issuer acquires commodities as a trustee on behalf of investors and sells these commodities to the originator on deferred terms of payment. The Murabaha structure is considered inflexible by investors as the associated coupon rate is fixed and the structure is not permissible for trading on secondary markets under Sharia Law (as they represent debt receivables).

5. **Sukuk Wakala**

In a Sukuk Wakala, a financial institution can either package its Sharia-compliant debt receivables or income-producing assets held by it in a portfolio, which is then sold to investors. The income derived from the portfolio is either paid to the investors periodically or as a lump sum alongside the Dissolution Amount at the end of the Sukuk's tenor.

As more innovative ways of structuring Sukuk emerge, the product has fast become increasingly popular, both as a means of raising government finance through sovereign issues, and as a way for companies to obtain funding. Whilst remaining an essential liquidity instrument, the sustained issuance of Sukuk will continue to play a critical role in economic development across the globe.

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