FMDQ SPOTLIGHT

Newsletter Edition 26 – December 2016

Contents

New Stories

FMDQ 2016 Highlights and Outlook for 2017

FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange), set out in 2016 with the conscious intent of effectively collaborating with its stakeholders to establish initiatives and achieve target objectives which would enhance the development of the Nigerian fixed income, currencies, and derivatives markets. Despite the challenges faced by the economy during the fiscal year, the OTC Exchange remained unrelenting in its efforts to make its markets **g**lobally competitive, **o**perationally excellent, **l**iquid, and **d**iverse, in line with its "GOLD" Agenda. The achievements for 2016 include, but are not limited to, the following:

- **Listing of the ₦10.00bn Transcorp Hotels Bond:** FMDQ commenced the year with the commemoration of the successful listing of the Transcorp Hotels PLC ₦10.00bn Series 1, 7-Year 16.0% Fixed Rate Unsecured Bond under a ₦30.00bn Medium-Term Bond Programme on its platform

- **Inclusion of Associate Member (Clients) on FMDQ Bloomberg E-Bond Trading System:** In line with its mandate to continuously add value to its stakeholders, FMDQ, in February, announced the inclusion of some corporates in its Associate Member (Clients) (AMCs) membership category on FMDQ Bloomberg E-Bond Trading System. By this inclusion, these AMCs, through their respective Bloomberg terminals, will be able to trade (request-for-quote) fixed income securities with the FMDQ Dealing Member (Banks) (DMBs)

- **Launching of the Dealing Member (Specialists) Membership Category for Fixed Income Trading:** In line with its desire to, not just integrate the Nigerian financial markets, thereby improving the markets' network effects, but to also promote market liquidity, FMDQ launched its Dealing Member (Specialists) (DMSs) category of membership, for non-bank financial institutions (NBFIs) to act as market makers in the FMDQ fixed income market. Participation of these NBFIs, typically the investment banking firms and securities dealing firms, will generate additional liquidity to the Nigerian fixed income market and serve as an avenue for effective and efficient retail participation in this market

- **Feasibility Study on the Introduction of OTC Derivatives in the Nigerian Financial Markets:** As part of its roles as a self-regulatory organisation (SRO), and market organiser, registered by the Securities and Exchange Commission (SEC or the Commission) to provide a platform where all over-the-counter (OTC) market activities in fixed income, currencies and derivatives are transacted, FMDQ commissioned a Project, "Feasibility Study on the Introduction of OTC Derivatives in the Nigerian Financial Markets", in March, to assess the readiness of the market and its stakeholders for derivative products. Further to this, four (4) Workshops were organised to engage key financial markets stakeholders on the Project findings

- **FMDQ-PenCom Partnership:** As part of efforts geared towards the realisation of its corporate vision and agenda, FMDQ, in April, formalised its partnership with the National Pension Commission (PenCom or the Commission) through the co-signing of a "Regulatory Supervision Collaboration Agreement"; commencing a partnership towards changing the face of the Nigerian financial markets from the buy-side (pension operators) perspective to ensure investor protection, integrity of service, fair return on investments and ultimately the development of the nation's economy

- **Release of Complaints Management Framework:** In accordance with the SEC Rules relating to the Complaints Management Framework in the Nigerian capital market, FMDQ developed a Complaints Management Framework in May, 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 OTC markets under FMDQ's purview

- **FMDQ-NMRC Partnership**: Sharing in the objective of the Nigeria Mortgage Refinance Company PLC (NMRC) to intermediate long-term funds from the capital market towards the development of the mortgage industry, FMDQ, in June, signed a Memorandum of Understanding with NMRC – towards building the Nigerian housing sector through the debt capital market

- **Re-Launch of the Nigerian Spot FX Two-Way Quote Market:** Following the release of the revised Central Bank of Nigeria (CBN) Guidelines for the Operation of the Nigerian Inter-Bank Foreign Exchange (FX) Market, the two-way quote (2-WQ) inter-bank FX Market went live in June, on FMDQ's platform. The CBN's Authorised Dealers set the pace for this market-driven trading window through the FMDQ-Thomson Reuters Foreign Exchange Trading System

- **Introduction of OTC Derivatives - Launch of the Naira-settled OTC FX Futures Market:** The Naira-settled OTC FX Futures market also kicked off in June, with the CBN as the pioneer seller, offering OTC FX Futures contracts of non-standardised amounts for different tenors (from one (1) month through to twelve (12) months) to Authorised Dealers; invariably, providing liquidity in the product that will enable investors, corporate treasurers, importers, exporters, governments, business owners etc. effectively and efficiently manage their FX exposures. The OTC FX Futures Framework and the OTC FX Futures Market Operational Standards were developed and released by FMDQ in July to guide and provide adequate governance and to support the market structure

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

- **Release of Guideline on 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, also 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 such as FMDQ. Accordingly, banks were therefore prohibited from transacting in CPs that are not quoted or intended for quotation on an authorised securities exchange, in any capacity whatsoever

- **Onboarding of FX Corporates on FMDQ-advised Systems:** In its bid to promote transparency, professionalism and integrity in the Nigerian FX market, the CBN, issued a directive to all Authorised Dealers mandating that all FX trades with corporate clients be executed only through the FMDQ-advised Trading & Surveillance System(s), effective August 1, 2016. The FMDQ-Thomson Reuters Foreign Exchange Trading System (TRFXT) was deployed for this purpose, and an on-boarding process aimed at ensuring a seamless integration of all relevant stakeholders to the TRFXT was launched by FMDQ in August

- **Approval for the Listing of Short-Term Bonds:** In October, FMDQ obtained the approval of SEC to introduce Short-Term Bonds to the Nigerian fixed income market, to essentially bridge the funding gap for corporates, between the money market debt instruments and the traditional medium- to long-term debt securities. The Commission also approved the FMDQ Short-Term Bonds Registration Process and Listing Rules, to provide effective market regulation and governance for the product

- **Launch of the FMDQ Financial Market Education Initiative:** The month of November, saw the launch of the FMDQ market education initiative, the **"**FMDQ Academy"**,** to deliver financial markets education to its stakeholders in line with the OTC Exchange's market and product development agenda in the fixed income, currencies and derivatives markets

- **Launch of the Debt Capital Market Development (DCMD) Project:** The DCMD Project was set up to ensure the effective implementation of the recommendations drawn from the widely-attended Debt Capital Market Workshop which held from October 27-28, 2015. The DCMD Project, having received the unrivalled support of the SEC, was officially launched during the Commission's third quarter Capital Market Committee Meeting, in November, to focus on identifying and implementing quick-win strategies that would transform the Nigerian market into a world-class, properly functioning debt capital market (DCM) by 2020, drawing strongly from SEC's 10-Year Nigerian Capital Market Master Plan

- **Listing of the Pioneer Money Market Fund:** As a debt-capital focused OTC securities exchange, bringing the Nigerian fixed income market operations under a single governance structure, FMDQ welcomed the pioneer money market fund memorandum listing - The Greenwich *Plus* Money Market Fund - to its platform

- **Other Fixed Income Securities Listings & Quotations**_– In the course of the year, FMDQ admitted other bonds for listing on the OTC Exchange including, the C & I Leasing PLC ₦0.06bn 18.25% Fixed Rate Bond; Sterling Investment Management SPV PLC ₦7.97bn Series 1, 7-Year 16.50% Fixed Rate Unsecured Bond, under a ₦65.00bn Debt Issuance Programme; and 10,000,000 Units of the Vetiva S&P Nigerian Sovereign Bond Exchange Traded Fund. The OTC Exchange also admitted several CPs for quotation during the year under review. These included the Guinness Nigeria PLC ₦7.22bn Series 2 and ₦2.77bn Series 3 CPs (under a ₦10.00bn CP Issuance Programme); UACN Property Development Company PLC ₦16.79bn Series 1, ₦2.27bn Series 2 and ₦4.00bn Series 3 (under a ₦24.00bn CP Issuance Programme); FSDH Merchant Bank Limited ₦14.98bn CP (Series 1 and 2 under a ₦30.00bn CP Issuance Programme); Dufil Prima Foods PLC ₦4.41bn 90 days Series 1 CP (under its ₦30.00bn CP Programme); Ecobank Nigeria Limited ₦8.29bn 162 days Series 1 CP (under its ₦100.00bn Multicurrency CP Programme); and Access Bank PLC ₦8.45bn Series 1, ₦4.22bn Series 2 and ₦22.33bn Series 3 CPs (under its ₦100.00bn CP Programme)

With much enthusiasm, FMDQ looks ahead into 2017, with a commitment to focus on its core mandate, leveraging on the concerted efforts of its stakeholders, in order to support economic development relevant to the growth of the Nigerian financial markets. Some focus areas for 2017 will include the following, *inter alia*:

- Standardisation of repurchase agreements trading (with collateral management)
- Development of the non-interest finance (Sukuk) capital market
- New products development: Short-term and private companies' bonds
- Expansion of the fixed income and currency derivatives market
- Financial markets education for the FMDQ markets' stakeholders
- Nigerian debt capital market development

Back to Top

FMDQ Co-Sponsors Inaugural Breakfast Meeting of the Association of Corporate Treasurers of Nigeria

The Association of Corporate Treasurers of Nigeria (ACTN or the Association), the professional body for corporate treasurers of the buy-side and non-bank sell-side of the Nigerian financial market, played host to key financial market participants and subject-matter experts at its inaugural Breakfast Meeting on December 15, 2016 at the Eko Hotels & Suites, Victoria Island, Lagos. FMDQ, in support of the Association's market development agenda, participated as a co-sponsor and panel discussant in this highly interactive gathering.

Following the delivery of the keynote address – 'The Economic Outlook for 2017', by the representative of the CBN Deputy Governor, Economic Policy Directorate, Dr. (Mrs.) Sarah O. Alade, OON, the timely and insightful meeting further provided a platform for experienced professionals, drawn from the Nigerian financial markets, to discuss 'Currency, Funding & Liquidity Management', making inferences and articulating feasible ways towards rejuvenating the state of the Nigerian financial markets.

Back to Top

FMDQ Holds Second Bi-Annual "Members Only" Meeting for 2016

In recognition of the important role of network effects in any financial market system, and desirous of a continued and effective collaboration with its Members, FMDQ played host to major players in the FMDQ markets represented by the respective membership categories of the OTC Exchange (Dealing, Associate & Registration Members) to its second "Members Only" Meeting for 2016. The Meeting, which held on December 16, 2016, at The Wheatbaker Hotel, Ikoyi, Lagos, provided a platform for deliberating on key issues pertinent to the development of the FMDQ markets. The session commenced with a presentation on FMDQ's market development and regulation initiatives, followed by updates on the FMDQ-led Debt Capital Market Development Project and technology initiatives in line with the OTC Exchanges agenda to deliver operational excellence.

The Meeting afforded FMDQ's Members the opportunity to collectively interact, review and comment on issues relevant to the development of the FMDQ markets as related to the provision of services by the OTC Exchange, and participation of the Members in the markets.

Further to its commitment to drive market and product development, and in its capacity as a market organiser, FMDQ, through the collaborative efforts of its Members and other key stakeholders, will continue to shape the markets in alignment with international standards. The Meeting concluded with a networking cocktail reception.

Back to Top

Sixth OTC FX Futures Contract Matures and Settles on FMDQ

The 6th OTC FX Futures contract, NGUS DEC 21 2016, with notional amount $477.45mm, matured and settled on Wednesday, December 21, 2016 on FMDQ; bringing the total value of contracts so far matured on the OTC Exchange to circa $1.53bn, and about $5.02bn worth of OTC FX Futures contracts traded so far. The contract, which stopped trading on December 13, 2016, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate as published by FMDQ on

December 21, 2016, with the associated clearing/settlement effected by the Nigeria Inter-Bank Settlement System PLC (NIBSS), in line with the FMDQ OTC FX Futures Market Operational Standards.

Consistent with its treatment for the previous five (5) consecutive maturities (from July - November 2016), the CBN introduced a new contract, NGUS DEC 27 2017, for $1.00bn at $/₦274.00 to replace the matured contract and refreshed its quotes on the existing 1- to 11-month contracts. Market participants are hopeful that the efforts of the CBN towards resuscitating the vibrancy of the nation's FX market will, in the coming year, yield the desired results and invariably allow for the potential of the OTC FX Futures market to be further maximised.

Back to Top

FMDQ Listings & Quotations

FMDQ Admits ₦6.295bn Wema Funding SPV Bond

Coming shortly on the heels of the listing of the Sterling Investment Management SPV PLC Bond and the pioneer memorandum money market fund, the Greenwich Plus Money Market Fund, the Board Listings, Markets and Technology Committee of FMDQ approved the listing of the Wema Funding SPV PLC ₦6,295,000,000.00 Series 1 7-year 18.50% Fixed Rate Unsecured Bond ("Wema SPV Bond") on FMDQ.

By streamlining the listings and quotations process, with what has been labelled a "phenomenal and unrivalled" turnaround time for all applications received on its platform, and without any compromise to its quality of oversight and due diligence, FMDQ provides a highly recommended and efficient platform for the registration, listing, quotation and valuation of debt securities; laying credence to the dream and objective underlying the OTC Exchange's establishment barely three (3) years ago. The listing of the Wema SPV Bond, within an exceptional approval process time, is another testament and validation of the efficiency and value-add provided by the FMDQ Listings and Quotations service, specifically, and the OTC Exchange as a whole. The Wema SPV Bond, having taken its rightful place on the FMDQ Bond Listings Wall of Fame, has joined a host of other securities to make history on FMDQ's unique platform.

Conscious of its crucial role in the Nigerian DCM, FMDQ is increasingly matching the efficiency of its offerings and processes, the FMDQ Listings and Quotations service being one of these, to those obtainable in the international markets. From improved market credibility, continuous information disclosure, to enhanced secondary market liquidity, and effective price formation, FMDQ continues to lay the foundation for sustainable and efficient financing in the Nigerian DCM, offering benefits which enable issuers build a strong corporate image in the capital market.

Back to Top

Sterling Bank PLC Raises ₦100.00bn Commercial Paper Programme on FMDQ

The FMDQ platform welcomed the registration of the Sterling Bank PLC ₦100.00bn CP Programme (the Sterling Bank CP Programme). This registration, which followed the due approval of the FMDQ Board Listings, Markets and Technology Committee, serves to further instill confidence in the possibilities of the Nigerian financial market, given the current economic climate. By registering and subsequently quoting the Sterling Bank CP Programme on FMDQ's platform, stakeholders benefit from, apart from the commendable and considerably quick registration process, the continuous provision of invaluable information as part of the OTC Exchange's commitment to organise, govern and enforce transparency in the fixed income market space.

An FMDQ quotations service avails, among others, credibility for quoted CPs and global visibility via the FMDQ website and the FMDQ-Bloomberg E-Bond Trading System.

Having successfully commenced and developed its listings and quotations process, FMDQ has, in line with international standards, facilitated and contributed, in no small measure, to the growth and competitiveness of the Nigerian fixed income market. The timely and efficient registration of the Sterling Bank CP Programme is a validation of one of the core mandates of FMDQ towards revolutionising the Nigerian debt capital market. By playing host to several bond issues and CP quotations, including the listing of the Federal Government of Nigeria Bonds and the quotation of the Nigerian Treasury Bills, amongst others, the OTC Exchange has continued to provide the much-needed confidence and protection to investors, whose direct and indirect activities play an important role in enhancing the vibrancy of the nation's economy.

In line with its strategic objectives, FMDQ continues to refine its processes with a view to innovating and further providing opportunities within the markets' under its purview, to support institutional growth and the continuous development of the economy at large.

Back to Top

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 – 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 – November 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	12,853,815	50,846
Foreign Exchange Derivatives	9,461,733	37,428
Treasury Bills	38,750,863	153,287
FGN Bonds	7,461,917	29,517
Other Bonds*	38,505	152
Eurobonds	53,663	212
Repurchase Agreements/Buy-Backs	28,636,902	113,279
Unsecured Placements/Takings	2,701,906	10,688
Money Market Derivatives	15,870	63
Total	**99,975,173**	**395,471**
No. of Business Days	229	229
Average Daily Turnover	**436,573**	**1,727**

mm- Million
USD/₦ @ 252.80 (This represents the weighted average rate from the start 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 @ December 6, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to November 2016 amounted to ₦99.97trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 39.00% of the market. Secured market transactions (Repos/Buy-backs) accounted for 29.00%, whilst FX market transactions accounted for 22.00%, Bonds, 8.00% and Unsecured Placement & Takings, 3.00%, of overall market turnover.

Back to Top

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - November 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	ECOBANK NIGERIA LIMITED
5	FIRST BANK OF 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 71.00% (₦121.59trn) of the overall turnover in the market, with the top three (3) accounting for 28.00% (₦47.76trn) of this sub-section of the market. Access Bank PLC, United Bank for Africa PLC (previously occupying 1st place) 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 over-the-counter (OTC) market. Standard Chartered Bank of Nigeria Limited swapped places with Union Bank of Nigeria PLC, to occupy 9th and 10th positions respectively.

Back to Top

FMDQ Learning

Introduction to Infrastructure Bonds

A bond is a debt instrument (an asset class) issued primarily by the government (at Federal, State and Local Government levels) and corporate entities to borrow money from the capital market at an agreed interest rate (coupon) and for a defined period (maturity). The borrower has an obligation to repay the principal and interest at specified time periods during the life of the bond. The entity that issues the bond is referred to as the issuer, while the investor that purchases the bond is known as the bondholder. Bonds are issued for a variety of reasons, including but not limited to, the financing of government budget deficit, business expansion of corporate establishments and the financing of infrastructure development initiatives. There are also a variety of bond types, however, this piece will focus on Infrastructure Bonds.

What is an Infrastructure Bond?

A bond is mainly classified as an infrastructure bond (also called a project bond) if it meets all the following criteria[2]:

- Issued to finance a specific infrastructure project
- Capital raised from the bond is repaid from the cashflow generated by the project
- Bond assumes (and its performance is subject to) the specific risk associated with the project it finances
- Issued by a project operating company (typically a government parastatal, SPV or a corporate entity) with investment grade credit rating

The conventional Federal, State and Municipal Government bonds issued with some 'promise' to spend the money on outlined (or otherwise) infrastructure projects are generally not referred to as infrastructure bonds, since there may be no income stream/cash-flows associated with the underlying project/asset, and repayments to the bond holders are made directly from government tax revenues (often via a 'sinking fund'). Furthermore, there is no guarantee that the money raised will be channeled into the identified infrastructure projects as promised.

Infrastructure bonds therefore, are issued for and with the purpose of financing infrastructure projects for public utilisation. Typically, such bonds are issued by the government (or government authorised entities), corporates or an SPV, and tied to specific infrastructure project(s). The bonds are structured by financial advisers (on behalf of the issuer) and issued by an issuing house. Other transaction advisers to the bond issuance include the legal advisers and bond trustees, amongst others. Investors subscribe to the bond at a stipulated issue price, while the funds realised from the issue are deployed for the intended infrastructure project (for example, a toll road, sea port, power plant etc.). Upon the listing of the bond on an authorised securities exchange, investors can trade on the bonds at market determined prices.

Although infrastructure bonds are an emerging asset class in Africa, few examples are remarkable:

- **South Africa:** In 2013, a project-specific 15-year 11.0% coupon bond with a face value of 1 billion Rand was issued to finance 44 megawatts concentrated photo voltaic (CPV) plant, becoming the largest CPV plant in the world
- **Kenya:** The country's leading electricity generation company (with 70% public ownership), 'KenGen', issued a 10-year 15 billion Kenyan Shilling public infrastructure bond in 2009 (at a fixed rate of 12.5% per annum)
- **Ethiopia:** From 2011 through 2014, the Ethiopian Electric Power Corporation (a government-owned power utility) raised approximately $5.8 million in a diaspora infrastructure bond issue of 5- to 10-year maturity, at a floating interest rate ranging from London Interbank Offered Rate (LIBOR) plus 1.25% to LIBOR plus 2.0% (to finance the Grand Ethiopian Renaissance Dam). The Dam is envisioned to be the largest hydroelectric power plant in Africa, with a generating capacity of 6,000 megawatts of electricity

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[2] African Development Bank (2013). Structured Finance – Conditions for Infrastructure Project Bonds in African Markets. NEPAD Regional Integration and Trade Department.

Characteristics of Infrastructure Bonds

- They are usually long-tenured, with maturities ranging from ten (10) to twenty (20) years
- They often come with credit guarantees (such as partial risk guarantee from the government) to de-risk the associated project(s)
- They are listed and traded on securities exchanges (such as the FMDQ OTC Securities Exchange)
- They often offer impressive yields that match the inherent risks of the associated projects
- They provide a reasonable safeguard to capital; hence investors explore investment in infrastructure bonds as a strategy to mitigate market risk

What are the Benefits?

To the Issuer

Infrastructure bonds offer a potent funding alternative to address the infrastructure deficits across emerging economies. They have proved to be a veritable strategy for attracting private capital to the infrastructure space, following the de-risking of the infrastructure projects using government guarantees. Infrastructure bonds are a relatively cheaper, fixed and predictable source of long-term financing for specific infrastructure projects when compared to bank loans. They allow the issuer to borrow on an off-balance sheet basis since a project company (could be a parastatal) would typically be the primary obligor.

To the Investor

Infrastructure bonds offer relatively higher risk-adjusted yields, hence constituting an attractive investment alternative to portfolio investors and pension funds administrators. Long-tenured funds in the financial sector (particularly pension funds and insurance companies' funds) are attracted to infrastructure bonds, given that they are relatively cheap, and could be used to match longer term liabilities. The bonds are liquid, and may be traded freely on a securities exchange, hence, investors can exit the investment prior to maturity, at market determined prices. In most countries, investments in infrastructure bonds are tax deductible, offering impressive tax incentives to investors. Furthermore, investment decisions by fund managers are often easier as the project to be financed with the bond proceeds usually has a clear business case with detailed cashflow forecasts.

To the Capital Market

Infrastructure bonds contribute to deepening the debt capital market as they constitute an investable asset class for investors. They also enhance market liquidity especially through their attractiveness to pension funds administrators and insurance companies. Furthermore, infrastructure bonds bring more transparency to infrastructure investments, and to the financial market as the underlying projects are usually professionally and transparently structured, and managed.

What are the Risk Considerations?

Infrastructure bonds are not risk-free,however, their risk profiles are comparatively low when compared to corporate bonds. The major risk consideration for an infrastructure bond is the issuer's risk, that is, the credibility of the institution offering the bonds. Ideally, if an issuer is considered to have incompetent management, poor credit ratings, a history of failed infrastructure projects and poor corporate governance, bonds issued by such issuer are considered risky. To mitigate this risk, investors go for infrastructure bonds that are issued by institutions with investment grade credit ratings (such as AAA, AA+, AA, and AA- ratings).

Furthermore, infrastructure bonds are subject to inflation risk, that is, the risk that unforeseen inflation will undermine the value of a bond investment, which impacts on the real return on such investment. Other risk considerations include sector-specific risks (i.e. risks that are unique to some sectors of the economy) in which projects across some sectors, such as the construction sector, are generally perceived to be riskier as a result of high probability of technical failures, non-or delayed completion and cost-overruns, amongst others.

In conclusion, with the annual infrastructure funding gap for Africa estimated at US$90 billion[3], infrastructure bonds offer a potentially effective funding alternative to address this deficit. For the Nigerian economy, it offers an innovative strategy that, if well-structured and harnessed, will stimulate the injection of private capital to the Nigerian infrastructure space and contribute immensely towards the development of the Nigerian DCM, even as it enhances market liquidity and offers an investible asset class (for example, for the pension fund administrators). Given the current strain in the nation's fiscal balances, Federal and State Governments, through the collaboration of key stakeholders and financial market infrastructures such as FMDQ, can explore this funding option to finance strategic infrastructure initiatives, thereby freeing up finances for other economic growth initiatives.

Back to Top

[3] Ernst & Young (2013), Planning to deliver, *Dynamics, Issue 8*, December 2013

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