



FMDQ SPOTLIGHT

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FMDQ
OTC Securities Exchange
...empowering the Nigerian debt capital & FX markets



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[Back to top](#)

▪ **New Stories**

- Leadership Changes at the Helm of FMDQ
- FMDQ Wins BusinessDay's Most Innovative in Financial Markets Award
- FMDQ Commences Publication of Weekly Turnover in Investors' & Exporters' FX Window
- CBN Sustains Commitment to the OTC FX Futures Market, as 11th OTC FX Futures Contract Settles on FMDQ

▪ **FMDQ Listings & Quotations**

- Stanbic IBTC Holdings Registers ₦20.00bn Commercial Paper Programme on FMDQ
- FMDQ Approves Registration of The Rand Merchant Bank ₦80.00bn Commercial Paper Programme

▪ **FMDQ Turnover and Dealing Member (Banks) League Table**

- FMDQ OTC Market Turnover (January – April 2017)
- Top Ten (10) Dealing Member (Banks) in FMDQ Market (January – April 2017)

▪ **FMDQ Learning**

- Fundamentals of Derivatives – Part 2





NEW STORIES

Leadership Changes at the Helm of FMDQ

The Board of Directors of FMDQ OTC Securities Exchange (“FMDQ” or the “OTC Exchange”), announced the retirement of the second Chairman of the Board of Directors, Dr. (Mrs.) Sarah O. Alade, OON, from the Company, effective April 28, 2017. The outgoing Chairman, Dr. Alade, was appointed to the Board of FMDQ in July 2014, following the retirement of its inaugural Chairman, Mr. Aigboje Aig-Imoukhuede, CON. Representing the Central Bank of Nigeria (CBN) on the Board of FMDQ, Dr. Alade was the Deputy Governor, Economic Policy Directorate, CBN, until her retirement. Dr. Alade, who has been pivotal to the transformation of the Nigerian financial markets over the years, led the OTC Exchange astutely for almost three (3) years and was instrumental to the successes achieved by FMDQ during the period. In addition to Dr. Alade, three (3) other Directors, having served in varying capacities also retired from the Board.

Speaking to her retirement, Dr. Alade said, “having had the privilege of leading the FMDQ Board since 2014, barely eight (8) months after the launch of the OTC Exchange onto the Nigerian financial markets, the time has come for me to say goodbye. Over the years, I have had the pleasure of working with a team of highly passionate and results-driven professionals, from FMDQ staff members to the Management team and my fellow Board members. I would formally like to extend my personal appreciation for their individual and collective efforts displayed throughout my tenure. I would also like to particularly thank the retiring Directors for their invaluable contributions to the achievement of the FMDQ dream and heartily welcome the new Directors to the FMDQ Board.”

Dr. Alade has been replaced by Dr. Okwu Joseph Nnanna, the CBN Deputy Governor currently overseeing the Economic Policy Directorate. Dr. Nnanna joins the Board of FMDQ with a wealth of experience, having previously served as the Alternate Executive Director representing Nigeria and twenty-one (21) other Sub-Sahara African countries on the Board of the International Monetary Fund, amongst numerous other relevant financial markets’ appointments. He is currently the Chairman of the Board of Directors of Africa Finance Corporation.

The Board of FMDQ also announced the shareholders’ ratification of the appointment of Mr. Kennedy Uzoka, Group Managing Director/CEO of United Bank of Africa PLC, and Mr. Dapo Akisanya, Managing Director/CEO, AXA Mansard Pensions Limited, whose appointments to the FMDQ Board as Directors took effect on August 1, 2016 and January 1, 2017 respectively. This is in addition to the retirement of Mr. Yinka Sanni (Director and Chair, Board Governance and Human Resources Committee) from FMDQ. Mr. Sanni is Chief Executive Officer (CEO) of Stanbic IBTC Holdings PLC and represented the Financial Markets Sub-Committee of the Bankers’ Committee on the Board of FMDQ, in his capacity as the erstwhile CEO of Stanbic IBTC Bank PLC.

Expressing appreciation to the outgoing Chairman, the Managing Director/CEO, FMDQ, Mr. Bola Onadele. Koko said, “on behalf of the Directors and Management, I will like to seize this opportunity to express our deepest appreciation to her [Dr. Alade] for the exemplary leadership and superior counsel provided in directing the affairs of FMDQ. I wish her many more healthy years ahead”.

As Nigeria’s foremost OTC Exchange, FMDQ, under the leadership of Dr. Nnanna, remains committed to transforming the Nigerian financial markets in line with its “GOLD” (Global competitiveness, Operational excellence, Liquidity and Diversity) Agenda.

[Back to Top](#)

FMDQ Wins BusinessDay’s Most Innovative in Financial Markets Services Award

In recognition of the contributions made by FMDQ to the development of the Nigerian financial markets, the OTC Securities Exchange won the 'Most Innovative in Financial Markets' Award at the first BusinessDay Top 25 Most Innovative Companies & Institutions in Nigeria Awards 2017.

The Nigerian financial markets have undergone significant changes in recent years, and FMDQ, having risen to its commitment to transform the markets, by, among others, bringing them to par with the global markets, has continued to lead the pace through timely service, product and market development innovations. From its visionary stride in successfully facilitating the Naira-settled OTC FX Futures Market, launching the short-term bonds product initiative, pioneering a Nigerian securities exchange learning institution, the FMDQ Academy; to championing the market-wide Nigerian Debt Capital Markets Development Project, FMDQ has indeed and in no small measure, created value geared towards the ultimate growth and development of the Nigerian economy.

As an innovation-driven OTC Securities Exchange, availing the markets unique opportunities and aligning its operations and activities with international standards, this Award validates FMDQ’s efforts in transforming the Nigerian financial markets.

[Back to Top](#)

FMDQ Commences Publication of Weekly Turnover in Investors’ & Exporters’ FX Window

About a month into the commencement of the newly established special FX window for investors, exporters and end-users, called the “Investors’ & Exporters’ FX Window” (the “I&E FX Window”), by the CBN, FMDQ began the publication of the weekly turnover figures for this Window on its website – www.fmdqotc.com. The I&E FX Window sets out a single and autonomous FX market structure, where transactions will be executed as agreed between willing buyers and sellers with the FX Authorised Dealers.

This initiative is in support of the transparency agenda for an efficient, vibrant and liquid FX market in Nigeria. Accordingly, a turnover of \$1.514bn was recorded for the weeks-ended April 28 – May 19, 2017. The I&E FX Window turnover will be published on a weekly basis on FMDQ's website and will feature the turnover from the previous' week's activities in this Window. Historical weekly turnover figures for this Window will be published on FMDQ's e-Markets Portal and will be available on a subscription basis.

[Back to Top](#)

CBN Sustains Commitment to the OTC FX Futures Market, as 11th OTC FX Futures Contract Settles on FMDQ

As part of its plan to fully resuscitate the vibrancy of the Nigerian FX market, the CBN has continued to support the operations of the OTC FX Futures market. By offering new contracts to replace matured ones and actively refreshing its quotes on the existing contracts, in line with the FMDQ reference rate for foreign exchange activities in the recently introduced Investors' & Exporters' FX Window – the NAFEX, the apex bank again displays its determination to maintain market stability and create an environment conducive for foreign and Nigerian portfolio investors.

Accordingly, having ceased trading eight (8) days in advance of its maturity, the 11th OTC FX Futures contract, NGUS MAY 24 2017, with notional amount \$253.61mm, matured and settled on FMDQ on May 24, 2017. This brings the total value of contracts so far matured on FMDQ, the OTC FX Futures Exchange, to \$3.64bn, with a total of about \$6.92bn worth of OTC FX Futures contracts traded so far.

A new 12-month contract, NGUS MAY 30 2018, for \$1.00bn at \$/₦396.06 was introduced by the CBN to replace the matured contract. The OTC FX Futures quotes are available daily on FMDQ's website at www.fmdqotc.com and published daily on the FMDQ Twitter page at www.twitter.com/@FMDQOTCExchange.

[Back to Top](#)



FMDQ LISTINGS & QUOTATIONS

Stanbic IBTC Holding Registers ₦20.00bn Commercial Paper Programme on FMDQ

Given the increasingly competitive market environment, corporates and commercial entities have continued to seek innovative approaches towards executing their financing strategies. Commercial papers (CPs), continue to present and serve as an alternative source of complementing working capital requirements, among others, for these businesses.

The FMDQ Board Listings, Markets and Technology Committee, approved the registration of the Stanbic IBTC Holdings PLC ₦20.00bn CP Programme (the Stanbic IBTC Holdings CP Programme) on its platform in readiness for such time(s) Stanbic IBTC Holdings PLC chooses to go to the market to raise finance (i.e. issue CPs) from the market within the boundaries of the ₦20.00bn CP Programme.

With a streamlined and efficient registration process, FMDQ avails a commendable quotations service which offers, among others, credibility for quoted CPs and global visibility via the Quotations Page on the FMDQ website and the FMDQ-Bloomberg Trading & Surveillance System (E-Bond). Also, FMDQ publishes the Quoted CPs Status Report which provides up-to-date information and the status of all CPs quoted on FMDQ's platform. By playing host to several CP quotations, FMDQ provides the much-needed visibility, confidence and protection to issuers, investors, market regulators, among others, whose direct and indirect activities play an important role in developing the nation's economy.

Having joined other top rated institutions that have their CP programmes registered on the OTC Exchange, the timely and efficient registration of the Stanbic IBTC Holdings CP Programme is a validation of FMDQ's mandate to be operationally excellent, towards the transformation of the Nigerian debt capital markets.

[Back to Top](#)

FMDQ Approves Registration of The Rand Merchant Bank ₦80.00bn Commercial Paper Programme

FMDQ maintains its support for the development of the Nigerian debt capital markets by steadfastly availing its efficient platform for the registration, listing, quotation and trading of debt securities. Accordingly, the OTC Exchange has welcomed another corporate commercial paper programme registration, the Rand Merchant Bank Nigeria Limited ₦80.00bn Commercial Paper Programme (the Rand Merchant Bank CP Programme), to its platform. This CP Programme registration strategically positions Rand Merchant Bank to raise short-term finance from the debt market easily and quickly at a time in the future it determines suitable, through CP issues, within the CP Programme limit.

In addition to the commendable and considerably efficient registration process, the quotation, on FMDQ, of the future CP issues from the registered Rand Merchant Bank CP Programme, will provide stakeholders with 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. Thus, serving to further boost confidence in the possibilities of the Nigerian financial market.

In line with its strategic objectives to support institutional growth and stimulate the continuous development of the economy at large, FMDQ has shown its steadfastness in realising these objectives through the promotion of product innovation and the championing of key market development initiatives, in order to ensure that opportunities abound for the markets under its purview.

[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 – April 2017)

Product Category	(₦' mm)	(\$' mm)
Foreign Exchange	3,198,206	10,196
Foreign Exchange Derivatives	5,943,851	18,972
Treasury Bills	21,985,390	70,333
FGN Bonds	4,070,785	13,038
Other Bonds*	1,631	5
Eurobonds	44,908	144
Repurchase Agreements/Buy-Backs	9,601,275	30,727
Unsecured Placements/Takings	397,690	1,269
Money Market Derivatives	11,970	38
Commercial Papers	-	-
Total	45,255,705	144,723
<i>No. of Business Days</i>	83	83
<i>Average Daily Turnover</i>	545,249	1,744

Average \$/₦ @ 312.67

mm - million

*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 5, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January to April 2017 period amounted to ₦45.25trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 48.58% of the market. Secured market transactions (Repos/Buy-backs) accounted for 21.22%, whilst FX market transactions accounted for 20.20%, Bonds, 9.10%, and Unsecured Placement & Takings, Money Market Derivatives and Commercial Papers representing less than 1.00%, of overall market turnover.

[Back to Top](#)

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January – April 2017)

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

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

The top ten (10) Dealing Member (Banks) accounted for 70.66% (₦31.97trn) of the overall turnover in the market, with the top three (3) accounting for 45.12% (₦14.43trn) of this sub-section of the market. Access Bank PLC, Ecobank Nigeria Ltd. 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.

[Back to Top](#)



Fundamentals of Derivatives – Part 2

This is the second of the three (3)-part series on 'Fundamentals of Derivatives'. Part 1 ([published in the FMDQ Spotlight - April 2017 edition](#)) explored the features and types of this important asset class, as well as the key concepts that feature prominently in derivatives transactions. To recall, derivatives are financial market products whose values are 'derived' from those of one or more underlying asset(s) or set of assets, which can be bonds, stocks, commodities, precious metals, market indices, etc. Derivatives can be traded OTC or on organised securities exchanges such as FMDQ. This second part of the series will focus on the various uses of derivatives as well as the major risk considerations.

Uses of Derivatives

Derivatives are used by financial and non-financial institutions for a variety of reasons, including risk management, speculation and arbitrage, etc. Generally, derivatives such as forwards, futures, options, swaps and swaptions, are used by most businesses to reduce the volatility of their earnings stream by hedging exposures to interest rate, exchange rate and commodity price risks. A 1998 United States of America Derivatives Usage Survey conducted by the Weiss Center for International Financial Research of Wharton School and CIBC World Markets, concluded that 83.00% of the US non-financial companies surveyed, use derivatives to curb the risk of foreign currencies, 76.00% to hedge against changes in interest rates, and 56.00% to hedge against commodity price fluctuations.

Primary uses of derivatives can be categorised as follows:

- **Hedging:** Derivatives allow for a simple transfer of risk from market participants unwilling to hold it, to those willing to take on the risk. Through a process known as 'hedging', market participants use derivatives to protect against the risk of unfavourable price movements, and/or to lock-in an acceptable margin between purchase cost and selling price. Companies typically use derivatives to hedge against unpredictable changes in exchange rates, interest rates and commodity prices, thereby reducing the degree of financial risk to which they are exposed. For example, a Nigerian exporter expects to receive US\$1.00 million six (6) months from May 2017 as proceeds for his cocoa export to Germany. Suppose that the current Naira exchange rate for the US Dollar is ₦370.00, the exporter stands to receive ₦370.00 million from the sale of the US\$1.00 million export proceeds in the Nigerian FX market. Come November 2017, the value of the US Dollar falls by 10.00% (or Naira appreciates by 10.00%). The exporter will lose ₦37.00 million as the Naira exchange rate for the US Dollar becomes ₦333.00 and the amount the exporter stands to receive from the sale of the US\$1.00 million export proceeds is ₦333.00 million. In May 2017, the exporter can however, buy, for instance, a six (6)-month US Dollar Forward contract to lock in the current Forward rate to hedge this foreign exchange risk.

If the six (6)-month Forward contract rate in May 2017 is \$/₦380.00, the exporter is certain to receive ₦380.00 million at maturity in November 2017, irrespective of what the Naira exchange rate for the US Dollar is at that time. Investors and businesses that participate in the derivatives market primarily to hedge against price risk of assets and portfolios are referred to as **hedgers**

- **Speculation:** This involves making a judgment call on the future direction of the value of an asset and taking a bet on this call. The buyer or seller of a derivatives contract (the **speculator**) essentially bets that the price of the underlying asset of the derivatives contract will move in a particular direction over the life of the contract. For example, a speculating investor may believe that the Naira will appreciate against the US Dollar; hence, the investor takes a long position in a Forward contract on the Naira (i.e. enters an agreement to buy \$/₦ at a pre-determined rate on a future date). Whilst the activities of speculators in the market have been criticised as distortive, speculators have assumed dominant positions in global derivatives markets, and more participants have embraced derivatives as a key tool for income optimisation

- **Arbitrage:** The use of derivatives for arbitrage has assumed dominance across most financial markets, particularly by most hedge and mutual funds. A simple example of an arbitrage is a fund that purchases an asset on an exchange, and sells that same asset, at a higher price, on another exchange. Arbitrage-seeking market participants (referred to as **arbitrageurs**) exist virtually in all financial markets and their activities are perceived not to be as risky as speculation since they take two (2) opposite sides of a transaction. Arbitrageurs take short and long positions in the same or different contracts at the same time, to create a position which can generate a 'safer' profit. Arbitrageurs play an important role in enhancing market liquidity and activity

Risk Considerations

Although one of the uses of derivatives is to reduce risk, their use, ironically, has some inherent risk. Some of the key risks applicable to the derivatives market are as follows:

S/N	Risk	Description
1.	Counterparty	Refers to the risk that a counterparty will default on its obligations under a derivatives contract, especially when future rates change against the counterparty.
2.	Market	Refers to the sensitivity of derivatives contracts to overall market price movements in underlying assets, which could trigger a default. This is sometimes referred to as "price risk".
3.	Liquidity	Refers to the ease with which derivatives contracts can be traded. It often applies more to investors who plan to close out a derivatives contract prior to maturity.

- 4. Legal** Refers to the risk that a contract will be unenforceable because it is declared illegal. It often originates from insufficient documentation, lack of counterparty authority or illegality of a derivatives contract.
- 5. Interconnection** Refers to the risk that a default in one derivatives contract (usually by a major bank or dealer) could trigger a chain reaction that spreads to other contracts which might ultimately threaten the financial system. Interconnection risk is also known as “systemic risk”.

Derivatives have assumed very wide acceptability and applications in global financial markets, rallying market organisers, and participants who hedge exposures or bet on market direction. Whilst hedgers use derivatives contracts for risk management, speculators and arbitrageurs utilise derivatives to boost earnings. Furthermore, users of derivatives are expected to embrace best practice in managing the inherent risks associated with derivatives contracts for best results. In the final part of this series, we will explore the Nigerian derivatives market, including its structure, products and the players.

[Back to Top](#)

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