



FMDQ SPOTLIGHT

NEWSLETTER EDITION 37 – NOVEMBER 2017



FMDQ
OTC Securities Exchange



C
O
N
T
E
N
T
S

[Back to top](#)

▪ **New Stories**

- FMDQ Commences its Private Companies' Bonds Noting Service
- OTC FX Futures Market Records \$9.80bn Transactions on FMDQ
- The French Ambassador to Nigeria Visits FMDQ

▪ **FMDQ Listings & Quotations**

- FMDQ Clocks 4 Years in Operation as Dufil Prima Foods PLC Lists its ₦10.00bn Fixed Rate Bond on the OTC Exchange
- The Nigerian Mortgage Market Receives a Boost... as Mortgage Warehouse Funding Limited Registers ₦20.00bn CP Programme on FMDQ

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

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

▪ **Upcoming Events**

- 2nd 2017 FMDQ Members' Only Meeting

▪ **FMDQ Learning**

- Bond Investing: The Concept of Accrued Interest

FMDQ Commences Private Companies' Bonds Noting Service

FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange), in its unwavering commitment to foster the deepening of the Nigerian debt capital markets (DCM), has commenced its Private Companies' Bonds Noting Service, the (PCB Noting Service). The FMDQ PCB Noting Service is an initiative that aims to prescribe minimum standards, and provide the much-needed due diligence and transparency, in the market for private long-term debt securities (bonds), by bringing these securities under appropriate governance and eliminating information asymmetry, thereby promoting credibility in the market for debt securities of private companies, which is currently marked by acute opacity. Private companies' bonds, which shall be issued in the private market only via private placements and traded in the secondary market bilaterally, will be recorded on FMDQ's platform for the promotion of unprecedented transparency in the PCB space, as well as good governance of the private companies.

The FMDQ PCB Noting Service offers a robust review and due diligence process for the noting of PCBs and restricts the availability of all the key information on the activities of the noted PCBs on a private basis, to only qualified counterparties via the FMDQ PCB Portal [*restricted*]. Private companies wishing to access the DCM for long-term funding via bond issuances, and noting same on FMDQ stand to gain from the attendant benefits a PCB noting on FMDQ provides. These include, but are not limited to unmatched transparency, unique visibility, broad qualified institutional investor base and efficient noting process.

The FMDQ PCB Noting Service provides a robust and efficient platform through which private companies can contribute significantly to the growth and development of the Nigerian economy through the debt capital markets whilst preserving the integrity of the markets and promoting investor protection. This service will ensure the provision of rare and valuable information on the features of all PCBs noted on the OTC Exchange for the effective valuation of portfolios containing these securities and the track record of the PCB issuers to enable sound investment decision making, as well as maintain up-to-date, timely and continuous information disclosure via the FMDQ Post-Noting Compliance Framework.

For more information on the FMDQ PCB Noting Service, kindly contact the Business Origination Group at bog@fmdqotc.com.

[Back to Top](#)

OTC FX Futures Market Records \$9.80bn Transactions on FMDQ

The Naira-settled OTC FX Futures market continues to show promise as another contract maturity and settlement successfully transpired in the month of November. The OTC FX Futures contract - NGUS NOV 29 2017, with notional amount \$543.05mm, matured and settled on FMDQ, on Wednesday, November 29, 2017; bringing the total value of contracts so far matured on the Exchange to circa \$6.85bn, and about \$9.80bn worth of OTC FX Futures contracts traded since the product launch, across different tenors (one (1) through to twelve (12) months).

The contract, which stopped trading eight (8) days before maturity, was valued against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing - spot rate as published by FMDQ on maturity date and the associated clearing/settlement effected in line with the FMDQ OTC FX Futures Operational Standards.

The Central Bank of Nigeria (CBN) introduced a new contract, NGUS NOV 28 2018 for \$1.00bn at \$/₦362.15 to replace the matured contract and refreshed its quotes on the existing contracts. With the consistent support provided by the CBN, success in the operations of the OTC FX Futures market has been maintained. It is therefore, safe to express that the OTC FX Futures market has contributed immensely to improving confidence in the Nigerian FX market, and to expect that the OTC FX Futures product will continue to pave the way for market participants to effectively and efficiently manage their FX risk, and by extension foster FX market liquidity.

[Back to Top](#)

The French Ambassador to Nigeria Visits FMDQ

Executives of FMDQ were delighted to receive the Ambassador of France to Nigeria, Mr. Denis Gauer and other delegates, during a visit paid to the OTC Exchange on November 17, 2017. Mr. Gauer, who was accompanied by the French Consul Général, Mr. Laurent Polonceaux, and the Regional Manager, Proparco Nigeria, Mr. Follin Olivier, embarked on the visit to FMDQ to gain an insight into the scope and operations of FMDQ, and the OTC Exchange's contributions in the development of the Nigerian financial markets, as well as its outlook for the future.



[Back to Top](#)

FMDQ CLOCKS 4 YEARS IN OPERATION AS DUFIL PRIMA FOODS PLC LISTS ITS ₦10.00bn FIXED RATE BOND ON THE OTC EXCHANGE

For four (4) years, FMDQ has progressively championed and effectively supported initiatives aimed at boosting the growth and development of the Nigerian financial markets, with particular focus on the DCM. Through the provision of unprecedented transparency, spearheading of initiatives to boost secondary market liquidity and facilitating effective price formation, among other activities via its platform, FMDQ has supported the enhancement of market credibility which has, in turn, boosted investor confidence in the Nigerian DCM.

Consequently, credible issuers in the private sector have been able to successfully tap the DCM to access stable long-term finance to fund key activities that ultimately translate to national economic development, some of which include, but are not limited to, funding pressing infrastructure development needs and supporting capital investments. The most recent of these issuers is Dufil Prima Foods PLC, which, following the approval granted by the FMDQ Board Listings, Markets and Technology Committee, listed the **Dufil Prima Foods PLC ₦10.00bn Series 1 Fixed Rate Bond under its ₦40.00bn Bond Issuance Programme (the Dufil Prima Bond)** on the OTC Exchange.

To mark this noteworthy achievement, FMDQ, in keeping with its tradition, held a prestigious Listing Ceremony at its offices on Tuesday, November 7, 2017, incidentally coinciding with the 4th year anniversary of the OTC Exchange. Present to celebrate the successful admittance of Dufil Prima Bond on FMDQ were key representatives from Dufil Prima Foods PLC, the issuer and guest of honour, Stanbic IBTC Capital Limited, the sponsor of the issue and Registration Member (Listings) of FMDQ, and representatives from FBN Merchant Bank Limited, Stanbic IBTC Trustees Limited, ARM Trustees Limited, G. Elias & Co., Udo Udoma & Belo-Osagie and Nnena Ejekam Associates.

Ms. Tumi Sekoni, Vice President, Business Development of FMDQ, during the welcome address, congratulated the issuer and sponsor of the issue on the success achieved in the DCM and expressed the OTC Exchange's gratitude for the issuer's decision to list the bond on FMDQ, whilst recognising Dufil Prima Foods PLC as a household name considering the quotation of its Commercial Papers also on the OTC Exchange. She reiterated FMDQ's commitment to also playing its part, like the issuer of the Dufil Prima Bond and other parties to the issue, in contributing towards the growth of the Nigerian corporate bond market.

Mr. Madhukar Khetan, Chief Operating Officer, Dufil Prima Foods PLC, during the Issuer's special address, stated, "We at Dufil Prima Foods PLC are very proud to have our inaugural issuance under the Bond Programme listed on FMDQ OTC Securities Exchange. This key milestone continues to outline

Dufil's commitment to entrenching the domestic capital market as an integral part of our corporate funding strategy, beyond the establishment and issuance of Notes under our Commercial Paper Programme. This initiative speaks to the very core of our beliefs in being relevant in our local markets and that can be closely correlated and identified with our products and services which are very well recognised on a national level."



Speaking on behalf of the sponsor to the issue and FMDQ Registration Member (Listings), Mr. Kobby Bentsi-Enchill, Head, Debt Capital Markets, Stanbic IBTC Capital Limited, affirmed as follows, "We are pleased to have supported Dufil Prima Foods PLC on their debut bond issuance in the domestic capital market, a key initiative for meeting their long-term funding objectives. This issuance, which was 100% subscribed, highlights the confidence placed by the market in Dufil's brand and its strategic intent. FMDQ has made significant strides with enhancing liquidity in the domestic capital market and the listing of the ₦10bn Series I Bonds by Dufil further provides a competitive investment option for fund managers looking for sustainable returns over and above comparable treasury benchmarks. We are excited to continue a fruitful partnership with FMDQ and top household names such as Dufil."

The Listing Ceremony was marked with memorable highlights which included, inter alia, the signing of the FMDQ Bond Listings Register; the presentation of the FMDQ Bonds Listing Certificate to the Issuer; the unveiling of the FMDQ Listing Scrolls; and the special autograph impressions by the Issuer.

Mr. Bola Onadele. Koko, the Managing Director/CEO of FMDQ, during his closing address, commented, "the OTC Exchange shall continue to innovate and provide efficient services and infrastructure, as may be necessary, to support issuers and investors, towards achieving an operationally excellent and competitive DCM.

Through consistent collaboration with its stakeholders, FMDQ shall continue to further deepen and effectively position the Nigerian DCM for growth, and invariably contribute to the growth of the economy at large.”

[Back to Top](#)

The Nigerian Mortgage Market Receives a Boost... as Mortgage Warehouse Funding Limited Registers ₦20.00bn CP Programme on FMDQ

Committed to fostering development by championing and supporting market-driven strategic initiatives, FMDQ, through its Board Listings, Markets and Technology Committee, on Tuesday, November 28, 2017, approved the registration of the ₦20.00bn Mortgage Warehouse Funding Limited (MWFL) Commercial Paper (CP) Programme (the MWFL CP Programme), to the platform of the OTC Exchange.

MWFL, set up as a ‘special purpose company’, is aimed at providing short-term, economically viable funding to its Member Mortgage Banks (MMBs) across Nigeria. With the support of the CBN, the National Pension Commission, Mortgage Bankers Association of Nigeria, Nigeria Mortgage Refinance Company PLC (NMRC), Dunn Loren Merrifield Advisory Partners Limited and other key stakeholders, MWFL is set to support the tackling of the seventeen (17) million housing deficit in Nigeria, by championing programmes to resolve the housing finance issues in the mortgage subsector.

The activities of MWFL are aimed at complementing those of NMRC, such that whilst NMRC is licenced to match funding and provide liquidity to the mortgage sector via long-term secondary market refinancing, MWFL will serve to provide an equally reliable and parallel source of short-term funding for primary mortgage originations. This short-term finance will enable MMBs to expand their origination capacity and ultimately enable them to run their businesses more efficiently and profitably, whilst ensuring the steady growth of the mortgage subsector in the Nigerian housing sector.

With this CP Programme registration, MWFL is availed the opportunity to easily raise short-term finance from the debt capital markets, within the Programme limit, to support its business operations as at when required in the future. Series from this CP programme will be quoted on FMDQ.

As part of efforts towards unlocking the potential of the Nigerian economy, FMDQ shall continue to promote market development in collaboration with the participants, to make the markets within its purview globally competitive and well-aligned to support economic growth and development for the benefit of the citizenry. This CP Programme registration comes shortly after the OTC Exchange listed the Dufil Prima Foods PLC ₦10.00bn Series 1 Fixed Rate Bond under its ₦40.00bn Bond Issuance Programme.

[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 (Federal Government of Nigeria (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 - October 2017)

Product Category	(₦'mm)	(\$'mm)
Foreign Exchange	15,752,906	49,957
Foreign Exchange Derivatives	13,666,630	43,341
Treasury Bills	50,524,389	160,227
FGN Bonds	8,244,769	26,146
Other Bonds*	25,565	81
Eurobonds	80,719	256
Repurchase Agreements/Buy-Backs	25,743,557	81,640
Unsecured Placements/Takings	1,260,034	3,996
Money Market Derivatives	22,897	73
Commercial Papers	-	-
Total	115,321,466	365,717
<i>No. of Business Days</i>	208	208
<i>Average Daily Turnover</i>	554,430	1,758

Average Rate \$/₦ @ 315.33
mm - million

*Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds and Sukuk

Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)

Source: FMDQ Data Portal as @ November 7, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

The month of October 2017 recorded ₦12.18trn in turnover, an increase of 7.39% when compared to ₦11.34trn recorded in September 2017, bringing the total year-to-date turnover to ₦115.32trn.

The month-on-month (MoM) growth was primarily driven by increased trading activities experienced in the FX Derivatives and Repurchase Agreements (Repos)/Buy-Backs product categories, which respectively made up 14.75% and 17.64% of the overall turnover for October 2017. Other product categories, on the other hand, experienced a MoM decline.

[Back to Top](#)

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - October 2017)

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

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

The top ten (10) Dealing Member (Banks) accounted for 71.51% (₦82.46trn) of the overall turnover in the market, with the top three (3) accounting for 47.75% (₦39.38trn) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and Ecobank Nigeria Limited. topped the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall over-the-counter (OTC) market, maintaining their position in the League Table as the top three (3) banks for seven (7) consecutive months.

The other Dealing Member (Banks) maintained their positions on the League Table with the exceptions of First Bank of Nigeria Limited swapping positions with Standard Chartered Bank Nigeria Limited, and both now occupying 5th and 6th places respectively; and Union Bank of Nigeria PLC swapping positions with Guaranty Trust Bank PLC, and both now occupying 9th and 10th places respectively.

[Back to Top](#)



UPCOMING EVENTS

2nd 2017 FMDQ Members' Only Meeting

The second bi-annual FMDQ Members' Only meeting has been scheduled to hold in December 2017. The Members' meeting provides a platform where the OTC Exchange and representatives of its respective membership categories (i.e. Dealing, Associate & Registration Members) come together to deliberate on key issues pertinent to the growth and development of FMDQ markets and the Nigerian economy at large.

In line with 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.

[Back to Top](#)



Bond Investing: The Concept of Accrued Interest

The concept of bond yield and price was explored in the October 2017 edition of the [FMDQ Spotlight](#), wherein it was highlighted that the price of a bond is determined by discounting the future cash flows (coupon and principal payments) on the bond. In so doing, two (2) major parameters are critical to estimating the cash flows on a bond. These are the maturity date of the bond (at which time the principal, or face value of the bond is paid and the bond retired), and the coupon rate (which determines the periodic (e.g. twice-yearly) payments made to the bondholder by the issuer). Bond prices and yields move in opposite directions, i.e., when bond yields go up, prices go down, and when bond yields go down, prices go up. Bonds are sold and bought in the secondary market where the prices fluctuate depending on demand and supply dynamics, as well as the level of market interest rates. If an investor buys a bond between coupon payments, the investor must compensate the seller of the bond for the coupon earned between the last coupon payment and the transaction date. This amount, which is called the accrued interest, is the focus of this month's FMDQ Learning.

What is Accrued Interest?

Accrued interest is the total interest accumulated on a bond since its last coupon date. You will recall that interest payments (coupons) on a bond are typically made every six (6) months until the maturity date. When the current holder (investor) of a bond sells his or her bond holdings between coupon payment periods, the bond holder remains eligible to receive a portion of the coupon payments that should "accrue" between the last coupon payment and the time ownership of the bond is transferred to a new investor. By implication, interest on bond holdings accrues between coupon payments on a pro-rated basis, and the accrued interest is paid by the buyer of a bond to the seller; whilst the bond issuer is not involved in the process.

In practice, accrued interest payment is added to the market price of the bond. Accrued interest is added to the market price of a bond to limit the price volatility that occurs in the bond market as a result of periodic changes in the 'accrued interest'. This adjustment is behind the concept of 'dirty' and 'clean' prices often used in the bond market and explained herein in detail. The basic formula for calculating accrued interest is given below as:

$$\text{Accrued Interest} = P * \left(\frac{C}{F}\right) * \left(\frac{D}{T}\right)$$

Where:

"P" is the par value of the bond.

"C" is the annual coupon rate of the bond. Ideally, this should be expressed as a decimal. For example, a 17.00% coupon rate would be expressed as 0.17 (i.e., 17/100).

"F" is the payment frequency (or number of coupon payments per year). This would be two (2) for semi-annual coupon payments or one (1) for annual payments.

"D" is the number of days since the last coupon payment on the bond was made.

"T" is the total number of days in a payment period. This is usually taken to be 180 and 360 days respectively for semi-annual and annual payments.

Clean and Dirty Bond Prices

A popular saying in the bond market is "buy 'clean', pay 'dirty'". This implies that the quoted price of a bond in the secondary market is its 'clean' price; whilst investors, nevertheless, pay a 'dirty' price to purchase the bond.

The 'clean' price of a bond is the offer price, defined as the discounted future cash flows of the bond, excluding any interest accruing since the last coupon payment date. On the other hand, the 'dirty' price of a bond is inclusive of the accrued interest; and is the actual price an investor pays to acquire the bond in the secondary market. It is technically the summation of the present value of all future cash flows ('clean' price) and the accrued interest of a bond. In most bond markets, the general convention is to quote the 'clean' bond price. However, since the bond may have accrued interest at the time of sale since the last coupon payment, the actual price paid by the buyer is usually the 'dirty' price.

To illustrate, consider a scenario in which an investor purchased (on January 2, 2016) a bond with a par (face) value of ₦1,000.00 and a 17.00% annual coupon rate, maturing on December 31, 2020. The coupon is paid semi-annually on January 1, and July 1. Assume that the investor sold the bond in the secondary market for ₦980.00 on October 31, 2016. Also assume a 180-day (30 days in a month) payment period. The accrued interest, 'dirty' price and the 'clean' are computed below:

- **Accrued interest:** Using the earlier stated formula, the accrued interest will be:

$$\text{Accrued Interest} = \text{₦}1,000.00 * \left(\frac{0.17}{2}\right) * \left(\frac{122}{180}\right) = \text{₦}57.61$$

- **'Clean' price:** The 'clean' price of the bond is the price at which the bond was quoted for sale on October 31, 2016. In this case, the 'clean' price would be ₦980.00
- **'Dirty' price:** The 'dirty' price of the bond is the summation of the 'clean' price and the accrued interest, which in the case would be ₦1,037.61 (i.e. ₦980 + ₦57.61)

By implication, the bond buyer would be paying the seller an extra ₦57.61 on the market price of the bond. Nevertheless, it is important to note that the buyer is entitled to receive a coupon payment of ₦85.00 in two (2) months (on January 1); this will make up for the accrued interest paid upon purchase of the bond two (2) months earlier.

Accrued interest is one of many concepts that a prospective investor should be familiar with in order to be an effective and knowledgeable bond investor. When a bond trade is executed in the secondary market, the accrued interest is paid by the buyer of a bond to the seller, as compensation for the length of time the seller held the bond since the last coupon payment. Nevertheless, the bond buyer is reimbursed the accrued interest paid at the next coupon date, as he/she receives the full coupon payment (per above illustration, this would be the July 1, 2016 – December 31, 2016 coupon payment, due January 1, 2017) even though the bond was held for just a portion of the time (that is, from October 31, 2016 – December 31, 2016) since the last coupon payment. Accrued interest is earned when a coupon bond is sold between coupon payment dates. Immediately following the coupon payment, the 'clean' and 'dirty' prices of a bond will be equal. Keep accrued interest in mind the next time you think about buying or selling a bond.

[Back to Top](#)

DISCLAIMER

The FMDQ Learning segment is produced by FMDQ OTC Securities Exchange for information purposes only. FMDQ IS NOT an investment advisor, and it does not endorse or recommend any securities or other investments. Market data and certain other information that may appear in this segment, as well as reference materials and/or links to other sites, have been compiled from publicly available sources believed to be reliable and are for general informational purposes only. It does not constitute any offer, recommendation, or solicitation to any person to enter any transaction or adopt any hedging, trading, or investment strategy, nor does it constitute any prediction to likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration contained therein. All rates and figures appearing are for illustrative purposes only. The accuracy or completeness of the information contained herein is not guaranteed and is not intended to be relied upon for investment purposes.

FMDQ, its affiliates, third party information providers, or any of these entities' officers, employees, directors, or agents have not: (1) attested to the merit of the information provided in this segment or on any of these securities; or (2) endorsed or sponsored any of these securities. ADVICE FROM A SECURITIES PROFESSIONAL IS STRONGLY ADVISED.

All information is provided "as is" without warranty of any kind. FMDQ (its affiliates) and the third-party information providers make no representations and disclaim all express, implied, and statutory warranties of any kind to user and/or any third party including warranties as to accuracy, timeliness, completeness, merchantability, or fitness for any purpose.

Unless, in the event of willful tortious misconduct or gross negligence, FMDQ (and affiliates) and the third-party information providers have no liability in tort, contract, or otherwise (and as permitted by law, product liability), to user and/or any third party. FMDQ (and affiliates) and the third-party information providers shall under no circumstance be liable to user, and/or any third party for any lost profits or lost opportunity, indirect, special, consequential, incidental, or punitive damages whatsoever, even if FMDQ has been advised of the possibility of such damages