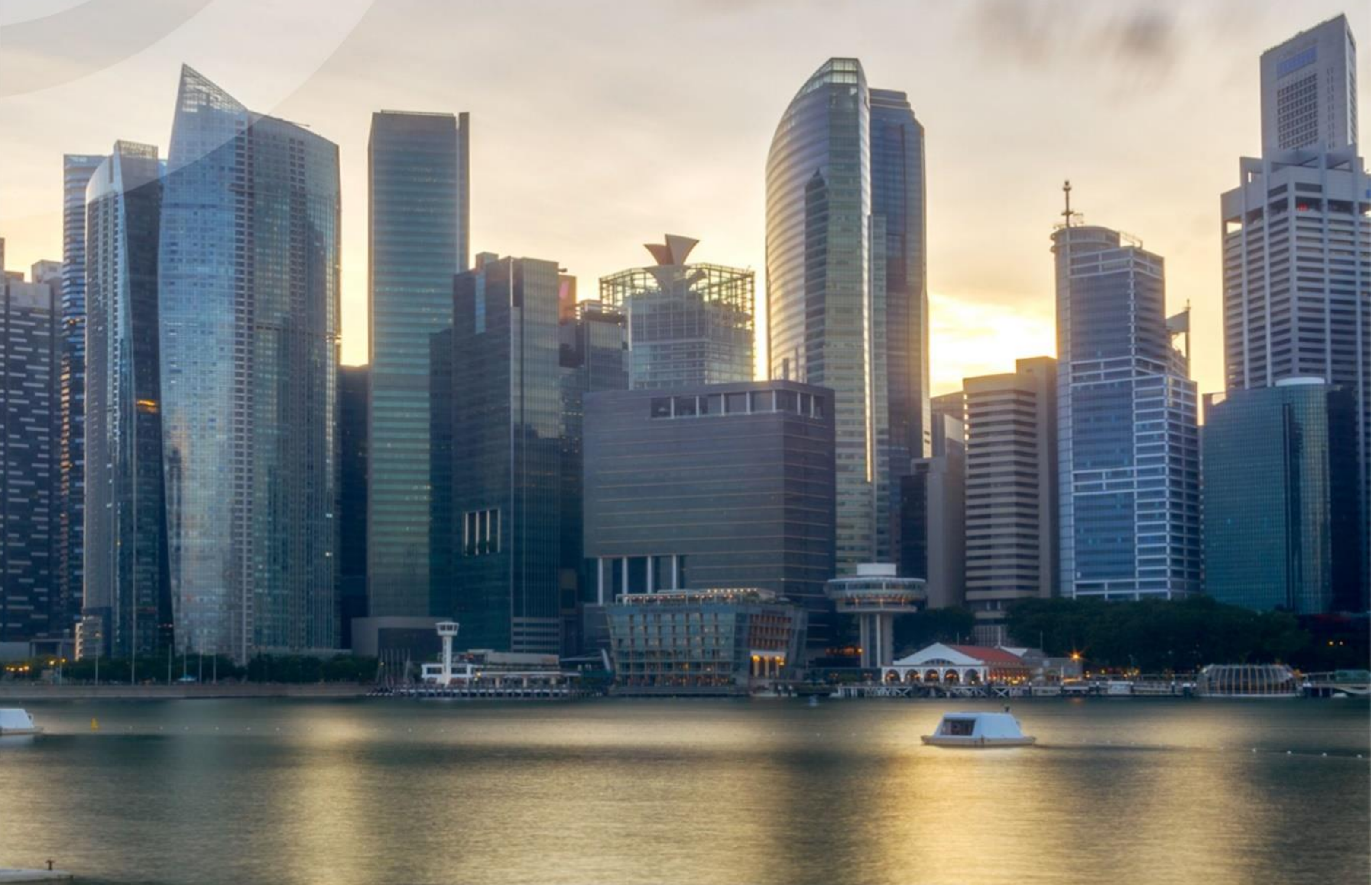
FMDQ SPOTLIGHT

NEWSLETTER EDITION 34 – AUGUST 2017



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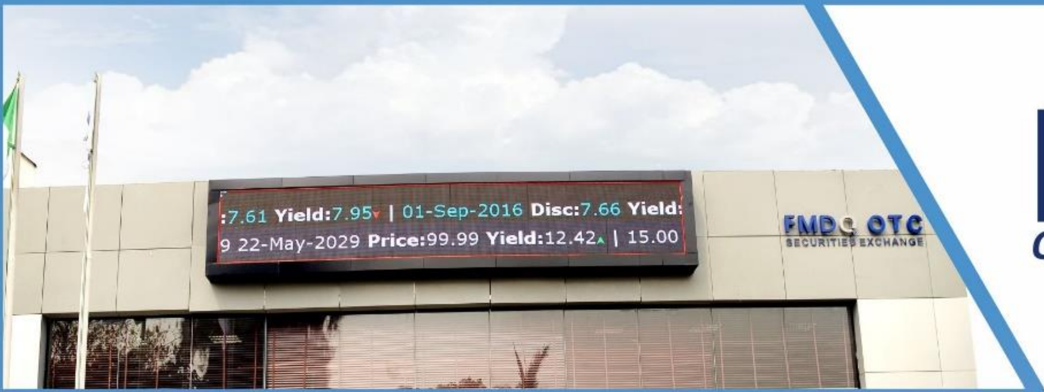
OTC Securities Exchange



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CONTENTS

NEW STORIES

FMDQ Launches Investor Protection Fund, Holds Inaugural Meeting of Board of Trustees

In compliance with the provisions of Part XIV of the Investments and Securities Act 2007, FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange) has formally established its Investor Protection Fund (FMDQ-IPF or the Fund), following the inaugural meeting of the Board of Trustees (BoT) of the Fund which was held on July 5, 2017. The launch of the Fund and inauguration of the BoT is a significant milestone in the achievement of the OTC Exchange's mandate to provide a secure and credible platform supported by global best practices, and serves as a catalyst for sustaining investor confidence in the Nigerian financial markets.

The FMDQ-IPF was established for the purpose of compensating investors who suffer pecuniary losses arising from insolvency, bankruptcy, or negligence of a Dealing Member of the OTC Exchange, as well as defalcation committed by a Dealing Member or any of its directors, officers, employees, or representatives in relation to securities, money or any property entrusted to, received, or deemed received by the Dealing Member in the course of its capital market activities.

At this highly interactive meeting, the members of the BoT deliberated on its leadership and other modalities towards the successful achievement of the mandate of the Fund. Mrs. Titi Helen Lawani representing the Pension Fund Operators Association of Nigeria and Ms. Tokunbo Ajayi, representing the Association of Corporate Trustees emerged as Chairperson and Vice Chairperson, respectively, following a unanimous resolution that both, being representatives of the investors and trustees, respectively, possess the requisite experience to provide the necessary leadership to ensure that the Fund is adequately governed and that the best interests of the investors are appropriately protected. Other members of the BoT are Mr. Chuka Eseka serving as a person of proven integrity, knowledgeable in capital market matters; Mr. Adedapo Olagunju, representing the Financial Markets Dealers Association; Mr. Joseph Mekiliuwa, representing the Central Securities Clearing System PLC; Mr. Amos Azi, representing the Securities and Exchange Commission; Chief Anthony Idigbe, SAN, representing the Capital Market Solicitors Association; Mrs. Taiwo Sonola, representing the Association of Assets Custodian of Nigeria; and Mr. Bola Onadele. Koko, representing FMDQ.

FMDQ, through the collaborative efforts of its Management and the BoT of the Fund, is committed to its mandate to drive transparency, governance, market oversight, credibility and ultimately to preserve the integrity of the Nigerian capital markets. Through this landmark achievement, the OTC Exchange is positioned to support the investor protection mandate of the Securities and Exchange Commission (SEC or the Commission), which guided by the 10-year Nigerian Capital Market Master Plan, launched the National Investor Protection Fund (NIPF) in 2015 for the purpose of compensating investors whose losses are not covered under the Investor Protection Fund administered by securities exchanges.

Back to Top

$7.60bn Worth of OTC FX Futures Trades So Far, as 14th Futures Contract Settles on FMDQ

Having ceased trading on August 8, 2017, in line with the OTC FX Futures Market Operational Standards, the 14th OTC FX Futures contract, NGUS AUG 16 2017, with notional amount $488.33mm, matured and settled on FMDQ on Wednesday, August 16, 2017. This brings the total value of contracts so far matured on FMDQ, the OTC FX Futures Exchange, to **$5.44bn**, with a total of about **$7.60bn** worth of OTC FX Futures contracts traded.

The contract was valued against the NAFEX - Nigerian Autonomous Foreign Exchange Fixing - Spot rate as published by FMDQ on August 16, 2017, with the associated clearing/settlement effected by the Nigeria Inter-Bank Settlement System PLC (NIBSS), in line with the FMDQ OTC FX Futures Operational Standards.

The Central Bank of Nigeria (CBN) has continued to display its determination to maintain market stability and create an environment conducive for businesses, corporates, portfolio investors, etc. Consistent with its treatment for the previous maturities in the last year, the apex bank introduced a new contract, NGUS AUG 29 2018, for $1.00bn at $/₦364.00 to replace the matured contract.

The CBN also refreshed its quotes on the existing 1- to 11-month contracts. The OTC FX Futures quotes are available daily on FMDQ's website and published daily on the FMDQ Twitter page.

The OTC FX Futures market, has paved the way for businesses, corporates, governments and portfolio investors to effectively hedge their FX exposures, by providing the much-needed certainty to enhance and ensure effective and efficient planning, to keep operations going, amidst any future volatility in the FX market.

Back to Top

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OTC Securities Exchange

Ecobank Nigeria Ltd. Quotes ₦12.53bn Worth of Commercial Papers

As stakeholders and all relevant market participants align their activities with relevant policy reforms shaping the Nigerian financial markets landscape, issuers continue to raise debt on FMDQ to finance their business needs. To this end, FMDQ was pleased to welcome the quotation of the Ecobank Nigeria Limited ₦12.53bn Series 2 Commercial Paper (CP) Notes under its ₦100.00bn Multi-currency CP Programme to its platform during August 2017.

FMDQ, in liaison with its key stakeholders, actively put steps in place to aid the resuscitation of the nation's CP market, to support the growth of the Nigerian economy by providing corporate and commercial businesses the opportunity to meet their short-term funding requirements, thereby contributing, in no small measure to the development of the Nigerian debt market. The time to market of CPs registration and quotation, on FMDQ, lays credence to the efficiency of the FMDQ quotations process. The count of CPs admitted onto the FMDQ platform year-to-date stands at twenty-eight (28). As with securities quoted on FMDQ, these CPs will be availed global visibility, effective governance and unprecedented transparency, as part of the value-add provided by the FMDQ Listings and Quotations Service. A formal quotation ceremony will follow in due course.

FMDQ remains committed to articulating, with the support of its key stakeholders, innovative ways to improve and make the Nigerian markets globally competitive, operationally excellent, liquid and diverse, in line with its mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy.

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 - July 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	7,779,145	24,941
Foreign Exchange Derivatives	8,992,227	28,788
Treasury Bills	36,346,713	116,588
FGN Bonds	5,876,861	18,857
Other Bonds*	1,631	5
Eurobonds	58,791	188
Repurchase Agreements/Buy-Backs	19,015,307	61,045
Unsecured Placements/Takings	817,209	2,619
Money Market Derivatives	21,085	68
Commercial Papers	-	-
Total	**78,908,969**	**253,099**

No. of Business Days	145	145
Average Daily Turnover	**544,200**	**1,746**

Average Rate $/₦ @ 311.74
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 @ August 7, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

FMDQ OTC Securities Exchange

The month of July 2017 recorded ₦11.53trn in turnover, a decline of 8.62% when compared to ₦12.62trn recorded in June 2017, bringing the total year-to-date turnover to ₦78.91trn. The month-on-month (MoM) decline was primarily driven by decreased trading activities experienced in the Treasury Bills, Repurchase Agreements (Repos)/ Buy-Backs and Bonds product categories, which respectively made up 43.67%, 28.44% and 4.60% of overall turnover.

Other product categories that experienced MoM declines were Foreign Exchange (FX) (Spot), FX Derivatives and Money Market Derivatives, respectively accounting for 12.82% , 9.20% and 0.01% of overall market turnover.

Back to Top

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January – July 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	STANBIC IBTC BANK PLC
3	ECOBANK NIGERIA LIMITED
4	UNITED BANK FOR AFRICA PLC
5	FIRST BANK OF NIGERIA LIMITED
6	DIAMOND BANK PLC
7	STANDARD CHARTERED BANK NIGERIA LIMITED
8	GUARANTY TRUST BANK PLC
9	CITIBANK NIGERIA LIMITED
10	UNION BANK OF NIGERIA PLC

The top ten (10) Dealing Member (Banks) accounted for 70.48% (₦55.61trn) of the overall turnover in the market, with the top three (3) accounting for 44.91% (₦24.97trn) of this sub-section of the market. Access Bank PLC, Stanbic IBTC Bank PLC and Ecobank Nigeria Ltd. 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 four (4) consecutive months. Access Bank PLC and Ecobank Nigeria Ltd. have, however, maintained this position for seven (7) months running. Access Bank PLC, Stanbic IBTC Bank PLC and Ecobank Nigeria Ltd. have a combined market share representing 29.00% of the overall trades executed (buy and sell sides) in the markets.

Back to Top

UPCOMING EVENTS

The 2017 Nigerian Debt Capital Markets Conference

The 2017 Debt Capital Markets Conference, themed, **"Positioning for Growth"** aims to provide an enabling platform to discuss and deliberate on strategies from model markets and subject matter experts, towards effectively positioning the Nigerian debt capital markets for growth within the global financial markets space. The Conference will bring together various national and international influential financial market participants and industry experts who will provide valuable insights into current trends, development opportunities, case studies, expectations for the future etc.

Topics & Sessions include:

- Building Resilient Debt Capital Markets
- Outlook for and Future of the Nigerian Debt Capital Markets
- Capital Inflows and the Operational Challenges faced by Foreign Portfolio Investors in the Nigerian Fixed Income and Currency markets
- Infrastructure Projects Funding
- Developing a Sustainable Finance Strategy
- Fixed Income and Interest Rate Derivatives
- Driving Economic Growth Through the Non-Interest Capital Market
- Spotlight on the Nigerian Public and Private Sectors

A few of the Speakers include:

- Mounir Gwarzo – Director-General, **Securities & Exchange Commission**
- Pat Oniha – Director-General, **Debt Management Office**
- Aliko Dangote – Founder, **Dangote Group**
- Jingdong Hua – Vice President & Treasurer, **International Finance Corporation**
- Razia Khan – Chief Economist, Africa, **Standard Chartered Bank, London**

More information can be found on the Conference Website.

To participate and/or sponsor this event, kindly contact Teju on 09070359971 or Uzo on 09070359970. Alternatively, you can send an email to dcmc@fmdqotc.com

Back to Top

Classifications of Interest Rate Derivatives

In the July 2017 edition of the Spotlight Newsletter, Interest Rate Derivatives (IRDs) were explored as an important type of Fixed Income Derivatives (which are financial contracts whose values are derived from the values of fixed income securities such as bonds, treasury bills and certificates of deposit), and defined as securities that derive their value from the movement of interest rates or sets of different interest rates. These interest rates could be on treasury instruments (such as bonds or treasury bills), inter-bank reference rates (such as the London Inter-bank Offered Rate [LIBOR], the Euro Inter-bank Offered Rate [Euribor] or the Nigerian Inter-bank Offered Rate [NIBOR]) or Repurchase Agreement rates, among others.

According to their degree of complexity, liquidity and tradability, IRDs can be classified into **plain vanilla,** (i.e. simple and common IRD contracts such as Interest Rate Swaps, Interest Rate Swaptions, Interest Rate Futures and Forward Rate Agreements); **quasi-vanilla** (i.e. fairly liquid IRDs, such as Floating-for-Floating Interest Rate Swap, Corridor Swaps, Constant Maturity Swap, Arrears Swap, etc.); and **exotic** (i.e. most illiquid and complex contracts such as Cross Currency Swaptions, Target Redemption Notes, Bermuda swaptions and Inverse Floater). Typically, plain vanilla IRDs are considered the most liquid and basic, whilst the exotic IRDs are the most illiquid and complex. On the other hand, quasi-vanilla IRDs combine features of both plain vanilla and exotic contracts and are often customised to suit markets' or dealers' specific requirements. The three (3) classifications of IRDs are explored in more details below:

Plain Vanilla IRDs

This is the simplest and most basic or standard version of IRDs. This type of IRD provides the basic building blocks for both the quasi-vanilla and exotic IRDs. Plain vanilla IRDs are standardised derivative products which are tradeable on organised securities exchanges such as FMDQ OTC Securities Exchange, and are generally characterised by high liquidity. Below are a few examples of plain vanilla IRDs:

Plain Vanilla IRD	Description
Interest Rate Swap	An Interest Rate Swap is an agreement to exchange a series of fixed cash flows for floating cash flows (based on a certain interest rate); essentially converting liability or investment from fixed to floating rates and vice versa. Typically, the buyer of an Interest Rate Swap agrees to pay out a fixed amount each month to a counterparty (the seller) in exchange for receipt of a future variable-rate payment that approximates the buyer's debt service payment.
Interest Rate Swaption	An Interest Rate Swaption is an option to execute an Interest Rate Swap at some point in the future, up until a specified maturity date. The buyer of the Swaption pays a counterparty a one-time upfront fee that depends

	on interest rate volatility, the length of time until the Swaption expires, and the rate at which the swap would be fixed, known as the exercise rate.
Interest Rate Futures	Interest Rate Futures are contracts between a buyer and seller agreeing to the future delivery of any underlying interest-bearing asset. Such contract allows the buyer and seller to lock in the price of the interest-bearing asset for a future date. When the underlying assets are treasury bills, such contracts are called Treasury Bills Futures.
Forward Rate Agreement	A Forward Rate Agreement is an agreement between two (2) parties who want to protect themselves against future movements in interest rates. This enables both parties lock in an interest rate (on a pre-determined notional amount) for a stated period of time on a future settlement date.

Quasi-Vanilla IRDs

These are fairly liquid derivatives, and share basic features of plain vanilla derivatives as well as some complex features of exotic instruments. They are characteristically less liquid than the plain vanilla variants, and less complex when compared to the exotic derivatives. Below are a few examples of quasi-vanilla IRDs:

Quasi-Vanilla IRD	Description
Floating-for-Floating Interest Rate Swap	This is a swap which is based on two (2) floating rates of the same currency but with different tenors (e.g. a 6-month LIBOR versus a 5-year Constant Maturity Swap rate [explained in more detail below]) or on two (2) floating rates denominated in two (2) different currencies (e.g. a 6-month US Dollar LIBOR versus a 6-month Euribor), where the notional amounts are exchanged both at the start of the swap and at maturity date. The floating-for-floating swap is also referred to as a Basis Swap or a Basis Rate Swap.
Corridor Swap	A Corridor Swap is a contract that is designed such that payment obligations occur only when the reference rate is within some specified range or "corridor". The Corridor Swap is essentially a speculation on the volatility of the floating rate (such as LIBOR or NIBOR). For example, a firm could enter into a swap to receive a fixed rate and pay a floating rate (say a 6-month NIBOR) only when NIBOR is in the range of 10.00%-15.00%.
Constant Maturity Swap	A Constant Maturity Swap is a contract in which the swap rate is exchanged for either a fixed rate or a floating rate on each payment date. The floating rate resets periodically at, or with reference to an agreed floating rate index e.g. LIBOR; whilst the fixed rate is set periodically with regards to a regularly available fixed maturity rate.
Arrears Swap	Arrears Swap is a contract in which the floating rate is set in arrears. This implies that the floating rate is determined based on the value or level of a specific reference rate at the end of the reset period. Once defined, the rate is applied retroactively to that period. An Arrears Swap is also known as In-Arrears Swap, Reset Swap, Back-Set Swap or Delayed Reset Swap.

Exotic IRDs

These are non-standardised derivatives, and involve the modification of the plain vanilla variants by introducing special features such as a range accrual (i.e. a bet that the reference "index" - usually interest rates or currency exchange rates - will stay within a predefined range). These IRDs typically have low liquidity and are mainly traded over-the-counter. Below are a few examples of Exotic IRDs:

Exotic IRD	Description
Inverse Floater	An Inverse Floater is an IRD whose payoff is inversely related to changes in interest rates. In essence, Inverse Floaters are not Options, but rather they are bonds embedded with optionality. They are a combination of an Interest Rate Cap/Interest Rate Floor (which protects a contract holder from exposure to upward or downward interest rate movements by putting a ceiling or imposing a lower limit on such movements), a Swap, and a Bond issue. An example is a "Quanto" Option (which is a currency-protected Option), whose underlying asset is measured in a currency and the payoff is quoted in another currency.
Cross-Currency Swaption	A Cross-Currency Swaption (also known as an "XCCY" Swaption, Differential Swaption or Circus Option) is a cross-currency derivative which gives the holder the right, without the obligation, to enter a Cross-Currency Swap, whether as a fixed rate receiver or a fixed rate payer. Essentially, the investor pays a stated fixed/floating rate in a given currency and receives a stated fixed/floating rate in another currency. Cross-Currency Swaptions are typically used to convert the liability/investment in one currency to another currency.
Target Redemption Note	A Target Redemption Note is an index-linked note that terminates whenever a maturity is reached or when the total amount paid on the structured coupon leg exceeds a pre-set threshold. The Target Redemption Note is very similar to the Inverse Floating Rate Note, but with additional features like the possibility of early termination and a guaranteed amount of coupon payments.
Bermuda Swaption	A Bermuda Swaption gives the holder the right, but not the obligation, to enter an Interest Rate Swap on certain pre-arranged future dates throughout the life of the option. The holder may only exercise the option on one of these predetermined dates. By contrast, a plain vanilla alternative would give the holder the option to enter into an Interest Rate Swap only on the expiration date of the contract.

According to data from the Bank for International Settlements (BIS), the gross global market value of interest rate derivatives was US$15.10 trillion as at the end of June 2016. This lays credence to the interest and value inherent in this product type. Having conducted a feasibility study for the introduction of derivatives in the Nigerian financial markets, FMDQ, in liaison with the relevant stakeholders, has commenced rolling out strategic initiatives towards developing this crucial market as part of its medium- to long-term plan for the alignment of the Nigerian market to international standards.

Back to Top

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