FMDQ SPOTLIGHT

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NEW STORIES

FMDQ Partners with Financial Sector Development Africa and Climate Bonds Initiative to Develop Green Bonds in Nigeria

In its bid to revolutionise the Nigerian debt capital markets (DCM) into a world class, properly functioning and globally competitive DCM; FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange) formalised its partnership with the Financial Sector Development (FSD) Africa and Climate Bonds Initiative (CBI) through the signing of a Cooperation Agreement to support the development of the Nigerian Green and non-Government Bonds markets for a period of three (3) years. This partnership stems from the growing global recognition of the role sustainability plays in strengthening financial stability and supporting overall economic growth in a nation.

The partnership is aimed at, among other things, enabling the OTC Exchange garner the necessary support required to promote impact investing as entrenched under the sustainable finance pillar in the FMDQ Debt Capital Markets Development (DCMD) Project, and at providing the necessary tools to allow the OTC Exchange continually pursue an economic development agenda to reposition and organise the Nigeria DCM to access a global pool of long-term climate-related capital.

FSD Africa is a market facilitator whose mandate is to reduce poverty across sub-Saharan Africa by building financial markets to become efficient, robust and inclusive. Similarly, the CBI is an international, investor-focused not-for-profit organisation with a mandate to mobilise the largest capital market of all, the $100 trillion bond market, for climate change solutions.

Mr. Bola Onadele. Koko, Managing Director/CEO, FMDQ, during the signing ceremony, stated, “as an OTC Exchange with a passion for developing the Nigerian DCM, FMDQ is excited and optimistic that our pursuit to develop a Green Bond market in partnership with reputable institutions such as FSD Africa and the CBI, will help address infrastructure gaps and environmental challenges in a sustainable manner to deliver prosperity for Nigerians.”

Similarly, the Director, Capital Markets Development, FSD Africa, Mr. Evans Osano commented, “this partnership has given us the opportunity to work closely together in developing Nigeria’s debt capital markets through the Green Bond Programme. It is expected that this Programme will improve access to a complementary source of longer-term capital, alongside traditional, shorter-term bank loans, while contributing to the financing of ‘green’ investments and improving the environment”.

The Director, Market Development, CBI, Ms. Justine Leigh-Bell, during her remarks stated, "we are very excited about this significant milestone. Working with FMDQ and FSD Africa will provide a platform to open up the Nigerian economy to a wider investor universe as we commence our journey to deepen the local capital markets by entrenching financing instruments such as Green Bonds."

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FMDQ Commemorates International Women's Day

In solidarity with the world and acknowledging the important role women play in the community at large, FMDQ on March 8, 2018, celebrated the International Women's Day at its offices in Lagos. In support of the global theme *#PressforProgress*, which is focused on maintaining a gender parity mindset and celebrating women's achievements, amongst others, the OTC Exchange commemorated the day by celebrating the FMDQ women.

The highlight of the day was a special evening event organised for the empowerment and education of the OTC Exchange's staff, which featured, amongst others, special talks on career positioning and corporate etiquette, facilitated by special guests, Mrs. Yemisi Tayo-Aboaba, a seasoned professional in the financial services industry and the Head of Banks & Broker Dealers, Africa, Standard Chartered Bank Nigeria Limited and Mrs. Janet Adetu, a certified Executive Business Coach and the Founder/Chief Executive Officer of JSK Etiquette Consortium, respectively.

As a sustainable organisation, FMDQ acknowledges the need for gender parity, and therefore creates equal opportunities for both male and female employees in its recruitment process and leadership appointments. The OTC Exchange remains committed to the values of sustainability in its drive to empower the financial markets in support of the Nigerian economy.

FMDQ Staff Organise Annual Corporate Social Responsibility Initiative

As a responsible corporate citizen, FMDQ is committed to the values of corporate social responsibility (CSR) in its interaction with its staff and the society at large. In line with this commitment, staff of the OTC Exchange organise the Annual FMDQ Staff CSR Initiative, an annual CSR outreach focused on donations to four (4) main needs categories – Orphanages, Youth Rehabilitation centers, Homes for the Elderly and Special Needs centers.

For the 2017 financial year, as with previous years, FMDQ staff visited and gave donations to needs homes and centers including the Living Fountain Orphanage, Echoes of Mercy & Hope Foundation, Holy Family Home for the Elderly, and Modupe Cole Memorial Child Care & Treatment Home, all falling within the four (4) main needs categories. Spanning over a couple of days, in what was a humbling and heartwarming experience, the visits provided an avenue for FMDQ staff, to, beyond offering material and financial support, offer comfort, reassurance and hope to the children and adults at all four (4) facilities.

FMDQ will continue to support CSR initiatives, even beyond the FMDQ Staff CSR Initiatives, through its Sustainability Franchise, making a positive impact on its local community.

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21st OTC FX Futures Contract Matures and Settles on FMDQ

With a total of $11.66 billion worth of the Naira-settled OTC FX Futures contracts traded on FMDQ, the 21st OTC FX Futures contract, NGUS MAR 28 2018, with notional amount of $437.52 million, matured and settled on Wednesday, March 28, 2018. This maturity brings the total value of matured OTC FX Futures contracts on FMDQ, since the inception of the market in June 2016 to date, to circa $8.46 billion.

As with the other maturities, and in line with standards stipulated in the FMDQ OTC FX Futures Market Operational Standards, the contract stopped trading eight (8) days before its maturity and was valued against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference Spot FX rate published on Wednesday, March 28, 2018. The associated clearing/settlement activities were effected accordingly.

Consistent with its treatment across the past twenty (20) maturities, the Central Bank of Nigeria introduced a new contract, NGUS MAR 27 2019 for $1.00 billion at $/₦361.96 to replace the matured contract and refreshed its quotes on the existing contracts. Quotes on the existing 1- to 11-month contracts have been updated and are published daily as open contracts on FMDQ's website at www.fmdqotc.com, as well as on the FMDQ Twitter page @FMDQOTCExchange.

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FMDQ OTC Securities Exchange

FMDQ Admits the ₦3.15 billion LAPO MFB SPV PLC Bond to its Platform

Corporate institutions have continued to successfully tap the Nigerian debt capital markets (DCM) to access stable long-term finance to fund key activities that ultimately translate to the development of the economy at large. Coming shortly on the heels of the recent listing of the Viathan Funding PLC Power Bond, FMDQ admitted on its platform, the first ever microfinance bank bond in Nigeria – the LAPO MFB SPV PLC Series 1 ₦3.15 billion 17.75% 5-year Fixed Rate Senior Unsecured Bond (the LAPO MFB SPV Bond) under a ₦20.00 billion Bond Issuance Programme.

To commemorate the listing of the bond, a ceremony was held at the FMDQ offices on Tuesday, March 27, 2018, where the OTC Exchange played host to the issuer, LAPO MFB SPV PLC (LAPO Microfinance), represented by Dr. Godwin Ehigiamusoe, Managing Director, LAPO Microfinance Bank Limited, alongside other senior executives from LAPO Microfinance Bank Limited; the co-sponsors to the issue on FMDQ, United Capital PLC, represented by Mr. Jude Chiemeka, Managing Director, United Capital Securities Limited and Mr. Tolu Osinibi, Executive Director, FCMB Capital Securities Limited; as well as other parties to the issue.

Welcoming the guests to the Ceremony, Ms. Jumoke Olaniyan, Associate Vice President, Market Architecture Division, FMDQ, applauded the issuer for having successfully raised ₦3.15 billion from the domestic capital markets, and for indubitably setting the pace for other microfinance banks planning to raise capital in the Nigerian DCM. She further commended the issuer for joining the league of corporate entities whose debt profiles have been raised via the value-packed listings and quotations service offered by FMDQ. She reiterated the OTC Exchange's commitment to continually align its strategies and innovation to serve and provide the much-needed support to the players in the DCM.

Speaking during his special address, Dr. Godwin Ehigiamusoe, highlighted that, the demand for capital from micro, small and medium businesses is high, and as a pro-poor financial institution, LAPO Microfinance is committed to the social and economic empowerment of low-income households through provision of access to responsive financial services on a sustainable basis. With excellent corporate governance, experienced management, committed staff and extensive footprints across Nigeria, LAPO Microfinance is poised to deliver its core mandate of enhancing financial inclusion by continuously tapping the Nigerian DCM to raise capital to improve lives of the underprivileged.

Delivering the Registration Member (Listings) remarks, Mr. Jude Chiemeka, highlighted, "we are delighted to have acted as financial adviser and issuing house in the successful execution of the LAPO MFB SPV Series 1 bond issue, which is the first of its kind in the microfinance industry. Coming from a successful 2017, United Capital remains committed to making significant contributions to the OTC Exchange and to the success of our esteemed clients through our expertise in capital raising.

We believe listing this instrument on the exchange will pave the way for other microfinance banks and allow them explore other funding sources available thereby establishing a robust domestic capital markets.”

Similarly, FCMB Capital Markets Limited, represented by Mr. Tolu Osinibi, during his remarks stated, “we appreciate having been given the opportunity by the issuer to play a leading role on this landmark transaction, where FCMB Capital Markets Limited acted as lead issuing house on the first ever bond issuance by a microfinance institution in Nigeria's capital markets. The success of this transaction speaks to LAPO Microfinance’s institutional strength and an affirmation of this strength by investors in the bond. Following this success, we expect to see LAPO Microfinance become a repeat issuer and anticipate that this landmark transaction will open-up the capital markets to other microfinance institutions that meet the criteria.”

In a statement given by the Chairman of the Board of Directors of African Local Currency Bond (ALCB) Fund, one of the key investors in the bond, Mr. Karl Von Klitzing commented that ALCB Fund was delighted to have anchored the first bond issued by a microfinance bank in Nigeria. Mr. Klitzing stated, “LAPO Microfinance provides financial services to underserved Nigerians, predominantly, women, for micro enterprise, farming and housing. With two investment grade ratings (national scale), the company has demonstrated bankability in the Nigerian capital markets. ALCB Fund has been involved since inception, providing technical assistance for ratings, accounting and legal services. We look forward to further successful bond issuances of LAPO MFB SPV Bond under its ₦20.00 billion issuance programme in 2018- 2020.”

As an OTC Exchange positioned to bring revolutionary changes in the Nigerian DCM, FMDQ, with the collective efforts of its varied stakeholders shall continue to deliver on its value-adding initiatives, ranging from development of its Listings & Quotations franchise, to product & market development, transparency & information, governance & regulation and education. The listing of the bond on FMDQ's platform validates the OTC Exchange's conscious drive to support the goals of corporate businesses and to deepen the Nigerian DCM by steadfastly availing its efficient platform for the registration, listing and quotation of debt securities. FMDQ is indeed proud to be associated with institutions doing what they can to support the sustainable development goals of the nation, whilst playing its part in said development.

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FSDH Merchant Bank Limited Raises Capital in the Commercial Papers Market

FMDQ has admitted the FSDH Merchant Bank Limited ₦4.51 billion Series 5 & ₦14.05 Series 6 commercial paper (CP) notes under its ₦30.00 billion CP Debt Issuance Programme, for quotation on its platform. The successive admittance of these securities, following due approval from the FMDQ Board Listings, Markets and Technology Committee, attests to the highly efficient time to market and 'second-to-none' Listings and Quotations service offered by FMDQ.

FMDQ recognises the potential of a fully-functional DCM and shall continue to innovate and provide efficient services, as may be necessary, to support issuers, investors, intermediaries and other stakeholders, towards achieving an operationally excellent and competitive DCM.

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FMDQ Turnover & Dealing Member (Banks) League Table Report

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)), Commercial Papers 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) (DMBs), represents trades executed amongst the DMBs, DMBs & Clients, and DMBs & the CBN.

FMDQ OTC Market Turnover (January - February 2018)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	5,797,233	17,182
Foreign Exchange Derivatives	2,755,031	8,173
Treasury Bills	10,177,024	30,184
FGN Bonds	1,426,422	4,229
Other Bonds*	6,977	21
Eurobonds	7,194	21
Repurchase Agreements/Buy-Backs	3,887,435	11,528
Unsecured Placements/Takings	214,360	635
Money Market Derivatives	-	-
Commercial Papers	-	-
Total	**24,271,675**	**71,972**

No. of Business Days	39	39
Average Daily Turnover	**622,351**	**1,845**

Average YTD $/₦ @ 337.22
mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*
Note: Figures may be subject to change due to potential adjustments from DMBs
Source: FMDQ Data Portal as @ March. 5, 2018; Figures reported by DMBs on a week-ending basis

The total turnover for January and February 2018 amounted to ₦24.27 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 41.93% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 35.24% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 16.02%, and Bonds and Unsecured Placements & Takings representing 5.94% and 0.88% respectively, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - February 2018)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ Markets.

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

The top ten (10) DMBs accounted for 74.63% (₦18.11 trillion) of the overall turnover in the market, with the top three (3) accounting for 61.01% (₦11.05 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

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Introduction to Securitisation

Securitisation refers to the issuance of securities that are backed by a pool of assets. The process involves the pooling and repackaging of similar financial assets (which on their own may be illiquid (i.e. difficult to trade)) into a new (consolidated) financial security which is subsequently sold to investors. The pooled assets are typically sold (or transferred) to a specially created third party (a Special Purpose Vehicle (SPV)), which uses them as collateral to issue securities in the capital market. Assets with a stable cash flow (such as corporate and sovereign loans, mortgage loans, consumer credit, project finance, lease/trade receivables and individualised lending agreements) can be securitised. However, securitised assets are generally classified into asset-backed securities (ABS) and mortgage-backed securities (MBS).

ABS are securities created from the pooling of non-mortgage securities such as credit card receivables, home equity loans, student loans and auto loans, whilst MBS are created from the pooling of mortgages. Both classifications entail the purchase of a pool of financial assets by an 'issuer', who structures the pooled assets into asset-backed or mortgage-backed securities for onward sell to investors. The fundamentals of ABS and MBS will be conferred in the April 2018 edition of the FMDQ Spotlight.

Parties involved in Securitisation

A securitisation transaction involves various parties. Highlighted below are some of the major parties and their unique roles.

PARTY	ROLE
Originator	▪ A financial institution that initiates securitisation transactions by pooling assets on its balance sheet and selling them to an SPV created for the securitisation purpose
Special Purpose Vehicle	▪ A legal entity established to acquire and hold the pooled assets on behalf of the investors. The SPV is essentially the issuer of the securitised assets sold to the investors
Rating Agency	▪ An institution that assesses and assigns credit ratings to the pooled assets, based on their credit quality and ability to meet payment obligations as and when due
Servicer	▪ An institution that performs administrative duties (such as mailing and billing statements, collecting payments and supervising delinquencies) on behalf of the SPV
Trustee	▪ A financial institution that ensures that money raised from the securities issued is transferred from the Servicer to the SPV, and that investors receive their payments in accordance with the contractually agreed period
Third-party Credit Enhancer	▪ A creditworthy third-party (typically a specialised insurer) that guarantees securitised products

Liquidity Provider	▪ A bank which provides the SPV with necessary cash to avoid any unsteadiness of cash flow to the investors
Investor	▪ Corporate institution, bank, pension fund administrator, insurance company or investment fund manager who buys the securities issued by the SPV. The investor receives pay-outs per the coupon rate of the securitised investment

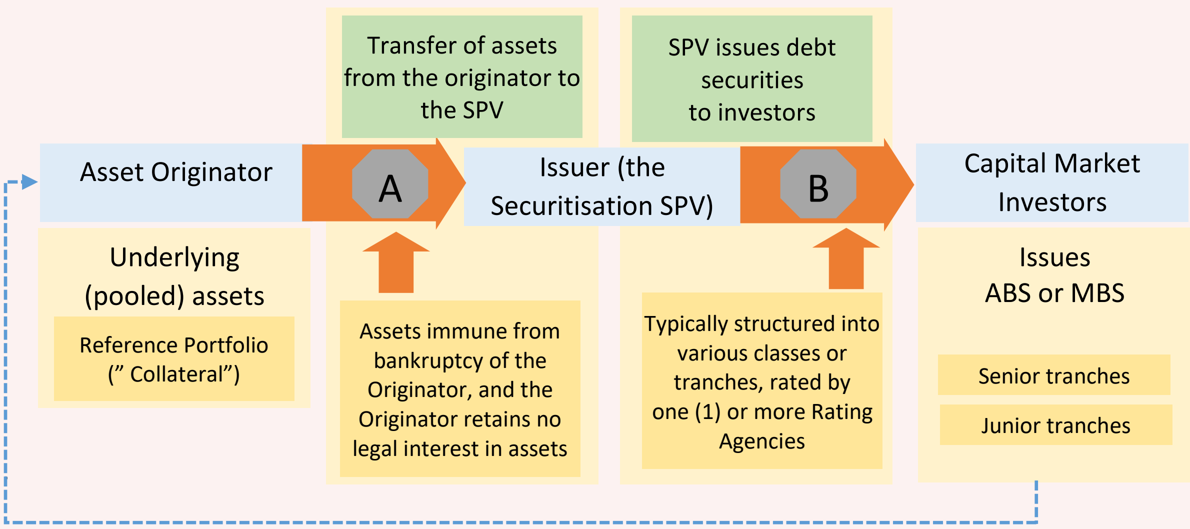
The Securitisation Process

The basic form of a securitisation transaction entails two (2) steps:

A. A company (the originator) with loans or other financial assets identifies the assets to securitise, and pools these. The originator subsequently transfers (or sells) the pooled assets to an issuer (the SPV) established for the securitisation purpose.
B. The issuer finances (pays) for the acquisition of the pooled assets by issuing securities (backed by the collateral of loans/receivables in the reference portfolio) such as an ABS or MBS to capital market investors. Subsequently, the investors receive fixed or floating rate payments from a trustee account funded by cash flows generated by the assets in the reference portfolio.

Depending on the structure of the transaction, securities issued on the same collateral pool may carry different credit ratings. A senior tranche could have a relatively lower risk, compared to a junior (or subordinate) tranche. This is because the senior tranches receive over-collateralisation protection such that in the event of a default, obligations to the senior tranches must be met first, before the junior tranches are considered. Figure 1 below provides a summarised flow of how securitisation works.

Figure 1: How Securitisation Works



Source: Andreas J. (2008), Finance & Development. September 2008

Benefits of Securitisation

From providing funding and cash flow requirements to deepening the capital markets, securitisation offers diverse benefits to the originators, investors and the capital markets as a whole. Some of these include, but are not limited to the following:

- To the originator, securitisation offers cash flow and balance sheet management benefits. It can be used to improve balance sheet liquidity by converting long-term and illiquid receivables into funds that can be used for value-generating investments. Furthermore, it can be used to diversify funding sources and reduce the cost of the originator's borrowings. In addition, securitisation offers a useful mechanism by which originators transfer risks associated with their loan portfolios to parties that are more willing or able to manage them. This is achieved through the transforming of cash flows and risks of the collateral pool into those of the securities issued on the pool
- To the investor, securitisation provides an investible asset class which could offer attractive yields. Securitised assets can also be tailored in a manner that meets the investor's unique needs and risk appetite
- To the capital markets, securitisation contributes to market depth and liquidity, and offers price discovery to relatively illiquid assets, as well as facilitates greater access to funds for new firms or firms with low credit ratings

Risk Considerations

Whilst securitisation can provide benefits to capital market participants and associated stakeholders, it also creates unique risks which can lead to unintended consequences.

- **Cash flow risk:** This is the possibility of poor cash inflows from the pooled assets, threatening investors' ability to recover the value of their investments
- **Amortisation risk:** This emanates from a potential mismatch between cash flow receipts on the receivables (pooled assets) and cash out-flow payments on the securities. For example, in a scenario where a long-term security is collateralised by short-term credit card receivables, the security will almost certainly be exposed to amortisation risk

Securitisation requires detailed risk management structures to ensure that the inherent risks are properly understood and managed. In addition to ensuring that the securitised products are of good credit rating, investors are expected to adopt a robust forward-looking analysis that considers the fundamental characteristics of the underlying assets and captures the interplay between economic factors, collateral performance and legal structure of the transaction to measure identified risks effectively.

Securitisation, as an asset class, presents an interesting opportunity for the Nigerian DCM, promoting diversity of investment assets and supporting the deepening of the Nigerian financial markets. The next edition in this series will delve into the fundamentals of ABS and MBS.

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