FMDQ SPOTLIGHT

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NEW STORIES

$353.00 Million Feb. 2018 OTC FX Futures Contract Matures and Settles on FMDQ

On Wednesday, February 28, 2018, the 20th OTC FX Futures contract, NGUS FEB 28 2018, with notional amount $353.26 million, matured and settled on FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange). This maturity brings the total value of matured Naira-settled OTC FX Futures contracts on FMDQ, since the inception of the market in June 2016, to circa $8.03 billion.

In line with the guidelines stipulated in the FMDQ OTC FX Futures Market Operational Standards, the NGUS FEB 28 2018 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, February 28, 2018. The associated clearing/settlement activities were effected accordingly, in line with the standards.

The Central Bank of Nigeria, as observed over the last nineteen (19) maturities, introduced a new contract, NGUS FEB 27 2019 for $1.00 billion at $/₦362.09 to replace the matured contract. The apex bank also refreshed its quotes on the existing 1- to 11-month contracts. These quotes are published dail on FMDQ's website at www.fmdqotc.com, as well as on the FMDQ Twitter page @FMDQOTCExchange.

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FMDQ Admits the 7-Year Federal Government of Nigeria Roads Sukuk to its Platform

Wholly owned by the Federal Government of Nigeria (FGN) through the Ministry of Finance (MoF) and incorporated by the Debt Management Office (DMO), the ₦100.00 billion Federal Roads Sukuk Company 1 PLC 7-Year 16.47% Ijarah Sukuk due 2024, was formally listed on FMDQ's platform this month.

Akin to the historic listing of the FGN Eurobonds on domestic exchanges, this is yet another commendable feat for the FGN, with the MoF and DMO, in their respective roles, championing development in the Nigerian debt capital markets. Being the pioneer sovereign Sukuk, this issuance will serve as a benchmark for the pricing of subsequent Sukuk issuances and provide a boost for other arms of government and the private sector to issue non-interest-bearing securities. This debut Sukuk further expands and diversifies the FGN's investor base and promotes financial inclusion by providing an avenue for ethical and other like investors to participate in the debt capital markets, invariably contributing to the development of the nation in a manner consistent with their investment preferences.

In acknowledgement of the crucial role which infrastructure plays in enabling sustainable development, per lessons learnt from other climes, the proceeds from the issuance of this Sukuk will be used to construct and rehabilitate ear-marked roads across the six (6) geopolitical zones of Nigeria.

A formal listing ceremony will be held in due course to commemorate this listing.

Corporates Seek Opportunities in the Commercial Papers Market

Corporate institutions have continued to tap into the potential of the short-term debt market to support their businesses. Accordingly, the UACN Property Development Company PLC ₦1.96 billion Series 20 & ₦1.97 billion Series 21 commercial paper (CP) notes under its ₦24.00 billion CP Issuance Programme and the Access Bank PLC ₦255.82 million Series 13 and ₦32.78 billion Series 15 CP notes under its ₦100.00 billion CP Programme were approved by the Board Listings, Markets and Technology Committee of FMDQ OTC Securities Exchange and quoted on FMDQ's platform.

As these institutions and a host of others key into the ample opportunities available in the debt capital markets, FMDQ shall continue to engage relevant stakeholders and support the market participants towards promoting efficient, transparent and well-regulated debt capital markets.

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FMDQ Commemorates the Listing of the Stanbic IBTC Dollar, Money Market and Bond Funds on its Platform

FMDQ through its Board Listings, Markets and Technology Committee, admitted the listing of the Stanbic IBTC Dollar, Money Market and Bond Funds (the SIAML Funds) to its platform. The SIAML Funds, which are open-ended Funds, are set to enable investors achieve competitive returns on their assets while safeguarding capital, by investing in low risk short-term securities, high quality government bonds and Dollar-denominated securities domiciled in Nigeria. To formally welcome the listing of the SIAML Funds, a Ceremony was held during the month of February at the FMDQ offices, where the OTC Exchange played host to the Manger of the Funds, Stanbic IBTC Asset Management Limited, represented by its Chief Executive Officer, Mrs. Bunmi Dayo-Olagunju and the FMDQ Registration Member (Listings) and sponsor of the Funds on FMDQ, Stanbic IBTC Capital Limited, represented by its Executive Director, Mr. Kobby Bentsi-Enchill. Also present at the Ceremony were key representatives from Stanbic IBTC Nominees Limited and investors in the Funds – South Atlantic Petroleum Limited, YOA Insurance Brokers, Nigerian Agip Closed PFA Limited and Chevron Closed PFA Limited - amongst others.

Welcoming the guests to the Ceremony, Ms. Tumi Sekoni, Vice President, Capital Markets Directorate, FMDQ, commended the Fund Manager on the strong and consistent performance of the Funds and on taking the prudent and strategic decision to list the Funds on FMDQ's platform. She reiterated the OTC Exchange's commitment to support and deepen the Nigerian financial markets by steadfastly availing its platform for the efficient registration, listing, quotation and trading of securities.

In FMDQ's typically unique and impressive fashion, the Ceremony was marked by memorable highlights which included, amongst other activities, the signing of the FMDQ Funds Listing Register by the Fund Manager, sponsor of the Funds on the OTC Exchange and FMDQ; the unveiling of the FMDQ Scrolls in favour of the Fund Manager and sponsor; and the special autograph impression by the Fund Manager.

Mrs. Bunmi Dayo-Olagunju, during the Fund Manager's special address, stated, "Considering the volatility in the equities and commodity markets, it is imperative for investors to diversify their portfolios by investing in Mutual Funds and other investment vehicles." "The attractiveness of Mutual Funds or collective schemes", she said, "is derived from the numerous benefits they offer over other investment vehicles, such as flexibility, liquidity, steady returns, professional management and risk reduction."

Speaking on behalf of the FMDQ Registration Member (Listings) and sponsor of the Funds on FMDQ, Mr. Kobby Bentsi-Enchill, during his remarks, noted that Stanbic IBTC Capital Limited had sponsored many listings on FMDQ's platform. He commented that Stanbic IBTC was excited with the remarkable growth of the fixed income market as this was vital to the creation of liquidity and pledged that the organisation would continue to work with regulators and operators to establish a world-class capital market in Nigeria. Mr. Bentsi-Enchill commented, "As a Registration Member (Listings) of FMDQ, Stanbic IBTC Capital Limited is also pleased to have supported the listing of the Stanbic IBTC Bond Fund, Stanbic IBTC Dollar Fund and of course, the Stanbic IBTC Money Market Fund, which is the largest open-ended mutual Fund in Nigeria".

Mr. Bola Onadele. Koko, the Managing Director/CEO of FMDQ, during his closing address, applauded the Fund Manager for its impressive performance in the market and stated that FMDQ remained unflinchingly committed to developing the Nigerian financial markets through its highly efficient platform, promoting unrivaled world-class standards to drive transparency, governance and liquidity, among others, in the markets. He commented that the Funds, among which were the largest open-ended mutual Fund in the nation and the innovative Dollar Fund, having availed on FMDQ's world-class listing service, would benefit from improved credibility, as continuous disclosure of all relevant information to do with the Funds was made available to a wide range of investors. The benefits availed the Funds listed on FMDQ, would also, by extension accrue to the Fund Manager.

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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), represents trades executed amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ OTC Market Turnover (January 2018)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	3,260,738	9,637
Foreign Exchange Derivatives	1,129,695	3,339
Treasury Bills	4,593,967	13,578
FGN Bonds	740,818	2,190
Other Bonds*	1,300	4
Eurobonds	2,966	9
Repurchase Agreements/Buy-Backs	1,857,806	5,491
Unsecured Placements/Takings	120,607	356
Money Market Derivatives		-
Commercial Papers	-	-
Total	**11,707,897**	**34,603**
No. of Business Days	19	19
Average Daily Turnover	**616,205**	**1,821**

$/₦ @ 338.35
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 @ Feb. 6, 2018; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover at the start of 2018, amounted to ₦11.71trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 39.24% of the market. FX market transactions (Foreign Exchange and Foreign Exchange Derivatives) accounted for 37.50% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 15.87%, with Bonds and Unsecured Placement & Takings representing 6.63% and 1.03% respectively, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January 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	STANDARD CHARTERED BANK NIGERIA LIMITED
4	UNITED BANK FOR AFRICA PLC
5	ECOBANK NIGERIA LIMITED
6	FIRST BANK OF NIGERIA LIMITED
7	CITIBANK NIGERIA LIMITED
8	UNION BANK OF NIGERIA PLC
9	STERLING BANK PLC
10	CORONATION MERCHANT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 75.36% (₦8.82trn) of the overall turnover in the market, with the top three (3) accounting for 67.05% (₦5.92trn) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and Standard Chartered Bank Nigeria Ltd. commenced the year as the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

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A Primer on Exchange-Traded Funds

Introduction

An Exchange-Traded Fund (ETF) is a "pooled" investment vehicle that offers diversified exposure to a segment of the financial market. It can invest in various underlying assets e.g. equities, bonds, commodities, currencies, options or a blend of assets. It can also be defined as an investment security (a fund) that is designed to track the performance of an underlying asset benchmark/index or specific sub-benchmark/index. ETFs are listed and traded on organised securities exchanges such as FMDQ and can be bought or sold during daily market trading sessions. They uniquely offer investors an indirect exposure to the underlying asset classes, in addition to a cheaper means of portfolio diversification. An example of an ETF available in the Nigerian capital markets is the FMDQ-listed Vetiva S&P Nigerian Sovereign Bond ETF (which tracks the S&P Nigeria Sovereign Bond Index).

Offering easy access to virtually every corner of the market, ETFs allow investors, big and small, to build institutional-caliber portfolios with lower costs and better transparency than ever before. ETFs are essentially an evolving capital markets product, and it is imperative for investors to understand their advantages and limitations. This edition of FMDQ Learning explores the features, investment modalities and risks of ETFs.

Features

From bonds to equities and currencies, ETFs exist for almost every asset class. Bond ETFs for example, invest exclusively in bonds of different tenors, yields, investment grades, etc. In the same vein, equity ETFs have a basket of equities as the underlying asset and can be further classified in terms of geographic regions (such as emerging markets, country-specific, etc.), the component size of the listed companies (small, medium or large), sectors (financial services, oil and gas, transportation, etc.), amongst other classifications. Similarly, commodity ETFs invest in commodities such as precious metals, agricultural products, or hydrocarbons; whilst currency ETFs track the performance of a single currency in the foreign exchange market against the US Dollar or a basket of currencies. From an investment management perspective, ETFs can be either actively or passively managed. Actively managed ETFs attempt to out-perform the underlying asset or index using strategies such as market timing, sector rotation, short-selling, buying on a margin, etc. Conversely, passively managed ETFs simply buy and sell securities to closely mirror the performance of the assets or indices it tracks.

As an investible asset class, ETFs offer diversification, income and arbitrage opportunities to investors. Compared to equities and bonds, for example, ETFs allow investors to purchase a diverse array of assets at once through one fund, as opposed to buying a single equity or bond with the associated transaction costs.

Highlighted below are some of the reasons institutional and retail investors favourably consider ETFs:

- **Diversification:** ETFs can provide access to a wide variety of sectors and indices through a single fund. For instance, a broad-based bond ETF might contain hundreds or thousands of bonds—more than many actively managed portfolios may typically accommodate
- **Accessibility:** ETFs provide investors access to all segments of the capital markets through the creation of funds that track hitherto inaccessible asset classes such as gold bullion, emerging markets bonds, etc.
- **Replicability:** ETFs create an opportunity for fund managers to build portfolios that nearly replicate the ETFs by investing in every security captured by the underlying asset(s) which the ETFs track, according to their set weightings
- **Liquidity and price discovery:** ETFs are exchange-traded and can be bought or sold in the secondary markets at various times throughout the day, and at prices quoted on the exchanges
- **Transparency:** Generally, the issuer/fund manager of an ETF provides daily information on the ETF basket to the shareholders, including, but not limited to the Net Asset Value (NAV) of the ETF

Risk Considerations

Whilst ETFs are often considered relatively less risky than other asset classes because they allow for broad portfolio diversification across various asset classes and markets, ETF investors must be aware of the inherent risks and costs of ETF investments, regardless of the type of ETF or the portfolio strategy. Some of the key ETF risks include, but are not limited to the following:

- **Market Risk:** Like other asset classes, ETFs are exposed to the up and down swings experienced in the financial markets. This implies that the value of an ETF investment may fluctuate in response to economic shifts or asset-specific fundamentals. As an example, the price of a bond ETF will decline (or increase) following a downward (or upward) movement in the prices of the underlying bonds which the ETF tracks. Market risk can be mitigated through efficient capital allocation that reduces exposure to any one (1) asset
- **Trading Risk:** This refers to the total cost of owning an ETF portfolio. These costs are usually in the form of commissions, sales charges, management fees and other direct trading costs such as the bid-ask spread, etc. Like other assets, ETFs also carry opportunity costs, creation and redemption fees and taxes on interest income and capital gains. Trading risk can be mitigated through robust due diligence which seeks to eliminate inefficient transaction/opportunity costs
- **Composition Risk:** The composition of an ETF may differ from that of the underlying assets which it tracks. Hence, there is a possibility that, for instance, two (2) ETFs that track the banking sector equity index could report varied performances since they might be tracking a different selection of banks. Composition risk can be mitigated through detailed due diligence prior to investing in the ETF
- **Counterparty Risk:** This risk emerges when securities lending is applied in the ETF market. It crystallises when a counterparty defaults on the ETF holdings lent them by another party for a short period of time. This risk can be minimised by establishing collateral requirements

which the borrower must meet, and which effectively offset counterparty exposures for the lender

- **Closure Risk:** This occurs when an ETF fund manager prematurely liquidates a fund and pays out the shareholders, incurring capital gains, transaction expenses and in some cases, legal expenses, which ultimately trickle down to the investors in the form of additional costs. Investors can mitigate this risk by selling off their ETF holdings as soon as the issuer announces it will close

Investment Modalities

ETFs are similar to mutual funds (i.e. funds pooled from investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets) in that they are both professionally-managed investment schemes which pool investors funds and invest same in equities, bonds, infrastructure and other securities. The investment modalities of ETFs begin with the creation of the ETF, and subsequent subscriptions/investment in the ETF by institutional and retail investors. The key steps in this process are further highlighted below:

i. **Creation of an ETF:** ETFs are created (and redeemed) in the primary market through the interaction of various stakeholders including the ETF sponsor (the fund manager), participating dealers (institutions authorised to create and redeem ETFs) and market makers (institutions that provide liquidity and may also function as participating dealers). Typically, a participating dealer applies to the ETF sponsor for a 'creation unit' (typically a given amount of ETF shares) in exchange for a basket of securities (called an 'in-kind' transfer), cash that equals the value of the 'creation unit' or a combination of the two. The redemption process works in reverse, with the participating dealer(s) approaching the ETF sponsor for a redemption.

ii. **Listing on an Exchange:** Once an ETF has been created and approved by the relevant regulatory authority (for instance, in Nigeria, the Securities and Exchange Commission) it is listed on a securities exchange such as FMDQ where it can be bought and sold by institutional and retail investors in the secondary market.

iii. **Investment in an ETF:** The participating dealers sell ETF stakes to interested investors (who may further trade/exchange the ETFs with other investors) in the secondary market through licensed brokers. The unit price of the ETF fluctuates daily and typically reflects the approximate value (NAV) of the ETF's underlying security or group of securities at any given point in the day.

In summary, ETFs provide innovative opportunities for investors to diversify their investment portfolios and to meet specific asset allocation needs. The market for ETFs has grown fundamentally across developed and emerging financial markets over the past decade and is expected to continue in this regard. FMDQ, in its quest to support development of the markets and the economy alike, is adequately equipped and positioned to support fund managers and to promote the listing of ETFs through its reliable and credible platform for the listing and quotation of investment securities.

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