FMDQ SPOTLIGHT

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FMDQ Empowers Dealing Member Specialists… Holds Training for Market Participants

As part of the drive to deepen the Nigerian capital market by fostering market integration and promoting liquidity, FMDQ Securities Exchange PLC (FMDQ or the Exchange) launched the Dealing Member Specialist (DMS) market in December 2018. This market is made up of securities dealing firms desirous of participating in the fixed income market, to begin with; trading amongst themselves and with FMDQ's Dealing Member Banks.

Identifying the crucial need for capacity building for stakeholders in this market, the Exchange, earlier in the year, convened a meeting of the Senior Executives of the seven (7) fully onboarded DMSs to deliberate on the status of the market, the progress made so far and the next phase of development expected. The well-attended meeting resolved that the DMS initiative was a laudable one and sought FMDQ's forbearance to reactivate the market. Also identified was the need for capacity building for the dealers in the DMS market and FMDQ's support was sought with delivering this. Consequently, FMDQ organised a training and simulation session on July 8, 2019 in a bid to improve dealers' knowledge and understanding of market making principles in the fixed income market and further promote participants' understanding of the DMS market structure and trading system, Q-Deal.

The intuitive training session introduced participants to the concepts and technicalities of the Nigerian Repo market, risk management frameworks, and trading rules and penalties, among others. Participants were also allowed the opportunity to a few trade simulation sessions, serving to boost the skills necessary skills for trading bonds, commercial papers and treasury bills in the FMDQ fixed income market. At the end of the programme, all participants were presented with certificates of attendance by Ms. Tumi Sekoni, Associate Executive Director, Capital Markets, FMDQ.

Through empowerment of its stakeholders, FMDQ will continue to develop the markets, promoting and enhancing the liquidity of these markets and paving the path for its rightful integration with its international counterparts.

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FMDQ, FSD Africa and CBI Holds Green Bonds Masterclass for Capital Market Intermediaries

FMDQ, in partnership with Climate Bonds Initiative (CBI) and Financial Sector Deepening (FSD) Africa, under the implementation workstream of the Nigerian Green Bond Market Development Programme, executed a Green Bond Masterclass for Capital Markets Intermediaries on Thursday, July 25, 2019.

The session focused expert discussions on the introduction to Green Bonds, Green Bonds Issuance & Certification Process, the Green Bonds Principles, how to develop a Green Bonds Framework, the Climate Bond Taxonomy, reporting requirement and case studies on successful Green Bonds issuances (domestic & international). Similar to previous Green Bonds workshop held, this session also equipped capital markets intermediaries with the skills needed to grow the uptake and issuance of Green Finance in Nigeria. Participants at the workshop included but were not limited to, representatives from Credit Rating Agencies, Issuing Houses, Trustees, Capital Market Solicitors Association (CMSA), Professional Services Firms.

As an Exchange with a passion for developing the Nigerian DCM, FMDQ will continue its pursuit to develop a world-class and sustainable Green Bond market in partnership with reputable institutions such as FSD Africa and the CBI, and will continue to address infrastructure gaps and environmental challenges in a sustainable manner to deliver prosperity for Nigerians.

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<u>**FMDQ Securities Exchange PLC and FMDQ Clear Limited Hold Annual General Meetings**</u>

Now in its second year running, FMDQ Clear Limited, a wholly owned central clearing house subsidiary of FMDQ Securities Exchange PLC, held its 2nd Annual General Meeting (AGM or the Meeting) on July 25, 2019. In consideration at this Meeting were the presentation of the Financial Statements of the Clearing House for the year ended December 31, 2018, together with the Report of the Directors and Auditors to the Shareholders, *inter alia.*

Presided over by the Chairman of the Board of Directors, Ms. Daisy Ekineh, sought the Shareholders consent with respect to put reappointed the company's External Auditors for another year, authorised the Directors to fix the External Auditors' remuneration and re-elected the members of the Audit Committee.

In the same vein, FMDQ Securities Exchange PLC, as part of its company statutory requirements, held its 7th Annual General Meeting on Friday, July 26, 2019, at the business complex - Exchange Place. Highlights of this meeting include the reappointment of FMDQ's external auditors for a following year; and, the appointment of two (2) new Non-Executive Directors to the Board of FMDQ Securities Exchange PLC; Mr. Ebenezer Onyeagwu, Group Managing Director/CEO, Zenith Bank PLC and Mr. Patrick Akinwuntan, Managing Director & Regional Executive, Ecobank Nigeria Limited.

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FMDQ, in its quest towards becoming a fully diversified and integrated market infrastructure, providing an Exchange – an efficient platform for registration, listing, quotation, noting, trading, order execution and trade reporting within its markets (fixed income, currency and derivatives); a central clearing house – facilitating the clearing, settlement and delivery of securities and financial market products within the Nigerian capital market; as well as offering a full suite of products, inter alia, remains resolute in its commitment to its strategically mandate of aligning the markets within its purview to international standards.

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S$27.05 Billion OTC FX Futures Contract Traded as 37th OTC FX Futures Contract Matured on FMDQ

On Wednesday July 24, 2019, the 37th OTC FX Futures contract - NGUS JUL 24 2019 with value of $529.10 million, matured and settled on FMDQ. 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 $17.14 billion; with a total of about $23.23 billion worth of OTC FX Futures contracts traded so far.

The matured contract was valued for settlement against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference Spot FX rate published same day. The associated clearing/settlement activities were effected accordingly.

The Central Bank of Nigeria (CBN), as observed over the last thirty-six (36) maturities, introduced a new contract, NGUS JUL 29 2020 for $1.00 billion at $/₦365.67 to replace the matured contract. The apex bank also refreshed its quotes on the existing 1 to 11-month contracts.

The contracts quotes are published daily on FMDQ's website at www.fmdqotc.com and on the FMDQ Twitter page, @FMDQOTCExchange.

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First Ally Asset Management Limited Raises Funds Through the Nigerian Debt Capital Market

As an Exchange positioned to champion and support market-driven initiatives towards facilitating growth and development in the Nigerian financial markets, FMDQ, through its Board Listings, Markets and Technology Committee, admitted the listing of the 1.50 billion units of ₦1.00 each of the First Ally Asset Management Limited (FAAML) Money Market Fund (FAAML Fund) on its platform on July 18, 2019.

The FAAML Fund is a Money Market Fund with the objective of providing investors with regular income earned from investments in high-quality short-term money market instruments and debt securities issued by the Nigerian Government. The FAAML Fund invests in securities such as banker's acceptances, certificates of deposits, commercial papers, collaterised repurchase agreements, deposits (fixed/tenured) with eligible financial institutions, as well as other instruments introduced and approved by the Central Bank of Nigeria (CBN) from time to time.

The admittance of the FAAML Money Market Fund on FMDQ's platform validates the 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.

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

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FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), Bonds (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 Market Turnover (January – June 2019)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	27,323,655	75,630
Foreign Exchange Derivatives	15,711,339	43,495
Treasury Bills	44,794,045	123,949
FGN Bonds	7,052,724	19,527
Other Bonds*	348	1
Eurobonds	131,828	365
Repurchase Agreements/Buy-Backs	23,285,893	64,475
Unsecured Placements/Takings	720,727	1,996
Money Market Derivatives	193,111	535
Commercial Papers	-	-
Total	**119,213,670**	**329,973**

No. of Business Days	122	122
Average Daily Turnover	**977,161**	**2,705**

Average YTD $/₦ @ 361.42
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 @ July 7, 2019; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January - June 2019 period amounted to ₦119.00 trillion. Trading activities in Treasury Bills contributed the largest to overall turnover, accounting for 37.56% of the market. FX (Spot FX and FX Derivatives) transactions accounted for 36.10% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 19.54%, and Bonds, Unsecured Placements & Takings and Money Market Derivatives representing 6.03%, 0.60% and 0.17% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - June 2019)

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	UNITED BANK FOR AFRICA PLC
2	STANBIC IBTC BANK PLC
3	ACCESS BANK PLC
4	STANDARD CHARTERED BANK NIGERIA LIMITED
5	ECOBANK NIGERIA LIMITED
6	FIRST BANK OF NIGERIA LIMITED
7	CITIBANK NIGERIA LIMITED
8	CORONATION MERCHANT BANK LIMITED
9	WEMA BANK PLC
10	ZENITH BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 76.71% (₦91.44 trillion) of the overall turnover in the market, with the top three (3) accounting for 55.39% (₦50.65 trillion) of this sub-section of the market. United Bank for Africa PLC, Stanbic IBTC Bank PLC occupied the 1st and 2nd positions respectively, while Access Bank PLC maintained the 3rd position in the value traded for the review period.

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FMDQ Fixed Income Primary Markets Sponsors' League Table (January – June 2019)

The FMDQ Fixed Income Primary Markets Sponsors' League Table shows the rankings of sponsors of fixed income securities (excluding FGN Bonds and T.bills) on FMDQ. The Registration Member (Listings) ("RML") and Registration Member (Quotations) ("RMQ") (collectively referred to as "Registration Members" or "RMs") are the FMDQ-authorised sponsors of these securities listed and quoted on the Exchange.

RANK	BONDS	COMMERCIAL PAPERS
	REGISTRATION MEMBER (LISTINGS) (RMLs)	REGISTRATION MEMBER (QUOTATIONS) (RMQs)
1.	Stanbic IBTC Capital Ltd.	FBNQuest Merchant Bank Ltd.
2.	Dunn Loren Merrifield Advisory Partners Ltd.	Stanbic IBTC Capital Ltd.
3.	Chapel Hill Denham Advisory Ltd.	Coronation Merchant Bank Ltd.
4.	United Capital PLC	[redacted]
5.	FBNQuest Merchant Bank Ltd.	

The top three (3) sponsors in both the bond and CP markets were Stanbic IBTC Capital Ltd., FBNQuest Merchant Bank Ltd. and Dunn Loren Merrifield Advisory Partners Ltd., contributing 81.33% to total issuances in the review period. Stanbic IBTC Capital Ltd., occupying the 1st postion, contributed 39.71% to total issuances and participated in both the bond and CP markets. FBNQuest Merchant Bank Ltd. and Dunn Loren Merrifield Advisory Partners Ltd. contributed 32.05% and 9.56% respectively to total issuances in the period.

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FMDQ Fixed Income Primary Markets Solicitors' League Table (January – June 2019)

The FMDQ league table represents the top solicitors of debt securities listed and/or quoted on FMDQ excluding FGN Bonds and T.bills.

RANK	BONDS	COMMERCIAL PAPERS
	SOLICITORS TO THE ISSUE	SOLICITORS TO THE ISSUE
1.	Banwo & Ighodalo	G. Elias & Co.
2.	Perchstone & Graeys	Udo Udoma & Belo Osagie
3.	Wigwe & Partners	Banwo & Ighodalo

The most active solicitor for the review period was Banwo & Ighodalo participating as solicitors in both the bond and CP markets for the review period. G.Elias & Co. and Udo Udoma & Belo Osagie ranked 2nd and 3rd respectively by value, participating solely in the CP market. The combined value of the top three (3) solicitors for the first half of 2019 (in both the bond and CP markets) was ₦151.00 billion.

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UPCOMING EVENTS

The 2019 Nigerian Capital Market Conference & GOLD Awards

The FMDQ-hosted 2019 Nigerian Capital Market Conference and GOLD Awards Ceremony is slated to hold on November 7 & 8, 2019.

The conference aims to provide an enabling platform to stimulate discussions and map out strategies between various domestic and international financial market participants (subject matter experts, regulators etc.), on effectively positioning the Nigerian financial markets for growth within the global financial markets space.

The FMDQ GOLD Awards, now in its second edition, on the other hand would recognise and awards FMDQ members and stakeholders whose actions have contributed to the development of the Nigerian financial market.

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Introduction to Eurobonds

What is a Eurobond?

A Eurobond is a type of an international bond that is denominated in a currency not native to the country where it is issued. Eurobonds are often named after the currency they are denominated in e.g. Eurodollar and Euroyen bonds refer to bonds denominated respectively in US Dollars and Yen.

The term Eurobond was coined by Julius Strauss, with its conception resulting from international financiers reacting to the Interest Equalization Tax imposed by the United States (US) government (in July 1963) to restrict US investors from investing abroad by taxing the purchase of foreign securities. The first Eurobond was issued in 1963 by Autostrade (the Italian road network) – a $15.00mm, 5.50%, 10-year bond – and was listed on the Luxembourg Stock Exchange.

With reductions in trade and financial barriers, governments and corporations have found Eurodollar bonds to be a very attractive means of raising funds for financing infrastructure projects (needed to stimulate their economies) or business expansion, due to its low cost of financing and ease of issue. These bonds are also popular because they are tax free and virtually free of regulation by any government. In more recent times, developing economies have increasingly resulted to issuing Eurobonds as additional sources of finance to support development. Ghana, in 2007, successfully issued its first Eurobond – $750.00mm, 8.50%, 10-year; in a bid to fund infrastructure projects and restructure its public debt. Nigeria's first entry into the Eurobond market took place in January 2011 with a $500.00mm, 6.75%, 10-year bond. The purpose of this maiden issue (which put the country on the global financial map) was not only to fund development projects, but also establish transparent and observable benchmarks for international investors and local companies to accurately price risk.

Since then, several Nigerian corporates (banks) have taken advantage of the Eurobond market to issue debt instruments for the purpose of raising funds to finance oil, power and infrastructure projects. Some of these have been highlighted below:

ISSUER	ISSUE YEAR	NOTIONAL VALUE ($'mm)	COUPON RATE (%)	TENOR (Years)
Guaranty Trust Bank PLC	2011	500.00	7.50	5
Access Bank PLC	2012	350.00	7.25	5

Fidelity Bank PLC	2012	300.00	6.88	5
First Bank of Nigeria Limited	2013	300.00	8.25	7

Eurobonds afford issuers the flexibility of choosing the location in which to issue and list their bonds in accordance with the location's governing regulation). Some issuers have taken to dual listing their Eurobonds (i.e. listing on more than one exchange), a case in point being the Republic of Ghana's last three (3) Eurobonds, which have been listed on both the Irish Stock Exchange (ISE) and Ghanaian Stock Exchange (GSE). Some benefits of dual listing are noted below:

- It provides an issuer access to a wider and diverse range of prospective investors, consequently allowing the opportunity for increased active trading of the bond
- It increases liquidity and improves the bid-ask spread for bonds by providing more competition
- Depending on the geographical locations of the exchanges, a bond dual-listed can benefit from extended trading when one of the exchanges has closed for the day and the other remains open (applicable where both exchanges are in different time zones)

Advantages of Eurobonds

- **Low Cost to Issuer**: Eurobonds are usually not subject to taxes or regulations of any one government, therefore in comparison to other debt markets, it is usually cheaper to borrow in the Eurobond market. Also, when compared to a foreign currency bank loan, or bilateral and multilateral loans, Eurobonds are not subject to the same stringent terms and conditions. Since Eurobonds are normally aimed at institutional investors, there are no advertisement costs involved therefore further reducing overall issue cost to the issuing firm/government

- **Financing Alternative**: Eurobonds offer a way for governments and companies to obtain financing in tough economic situations where financing is hard to source. Issuing Eurobonds give issuers wider access to the international market, which may normally not accessible to the issuers, while affording issuers the opportunity to take advantage of favourable regulatory and lending conditions in other countries

- **Asset and Liability Management**: Eurobonds afford companies a cost-effective means of obtaining funds in a foreign currency, in order to create a foreign currency liability to match against a foreign currency asset

- **Benchmarking Debt/Risk**: Eurobonds have helped governments establish debt/risk benchmarks, which is helpful for domestic enterprises planning to fund business activities from overseas sources. The issuance of Nigeria's first global sovereign bond in foreign currency (earlier mentioned), together with its favorable credit rating, helped and encouraged Nigerian companies to borrow at competitive rates from international financial markets. Furthermore, access to longer-term US Dollar funding has helped domestic corporates finance economic activities that in turn contribute to the country's economic growth

Disadvantages of Eurobonds

- **Restrictive Covenants**: Bond covenants, which are legally binding terms in an agreement between a bond issuer and a bondholder, can be very restrictive in nature. Some restrictive clauses on Eurobonds can, for example, prevent issuers from issuing other bonds, limit their ability to make new capital investments, pay out dividend, or engage in merger and acquisition (M&A) activities for the period that the Eurobond remains outstanding
- **Foreign Exchange Risk Exposure**: The currency difference between the bond issued and the bond issuer's location of operation, introduces the risk of exposure to foreign exchange fluctuations. To mitigate against this, it is therefore imperative that payment obligations from a Eurobond is matched against corresponding receivables from an asset (with the same currency as the bond)

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