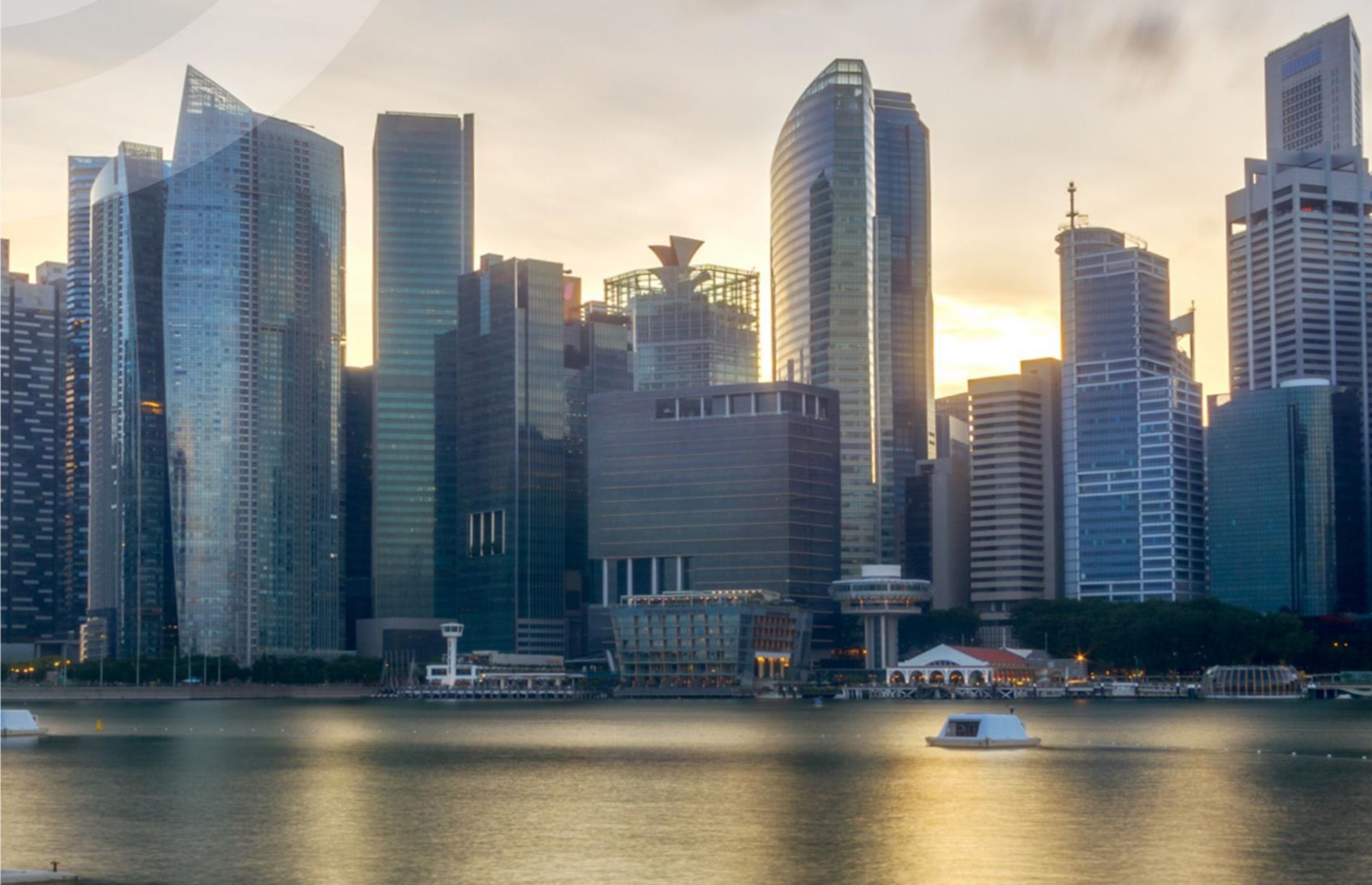
FMDQ SPOTLIGHT

NEWSLETTER EDITION 55 – MAY 2019



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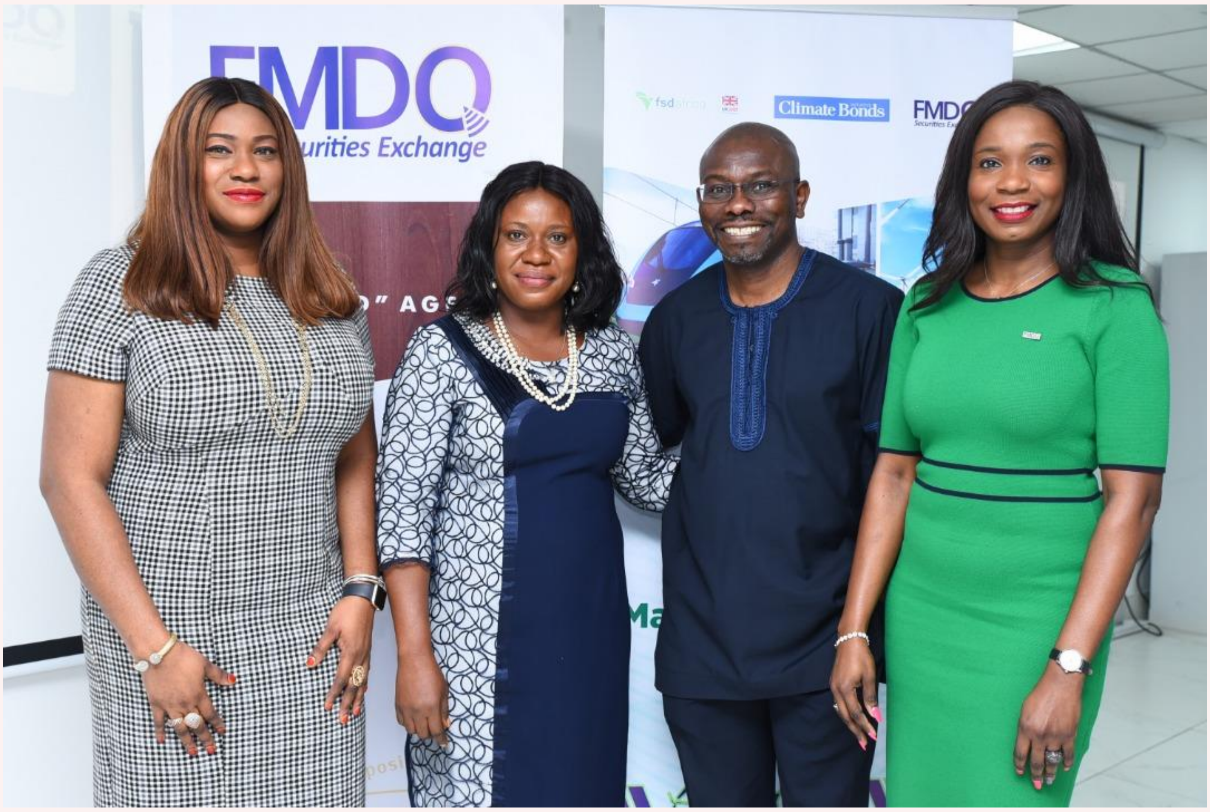
FMDQ, FSD Africa & CBI Host CAMCAN to Media Engagement Workshop on Green Bonds

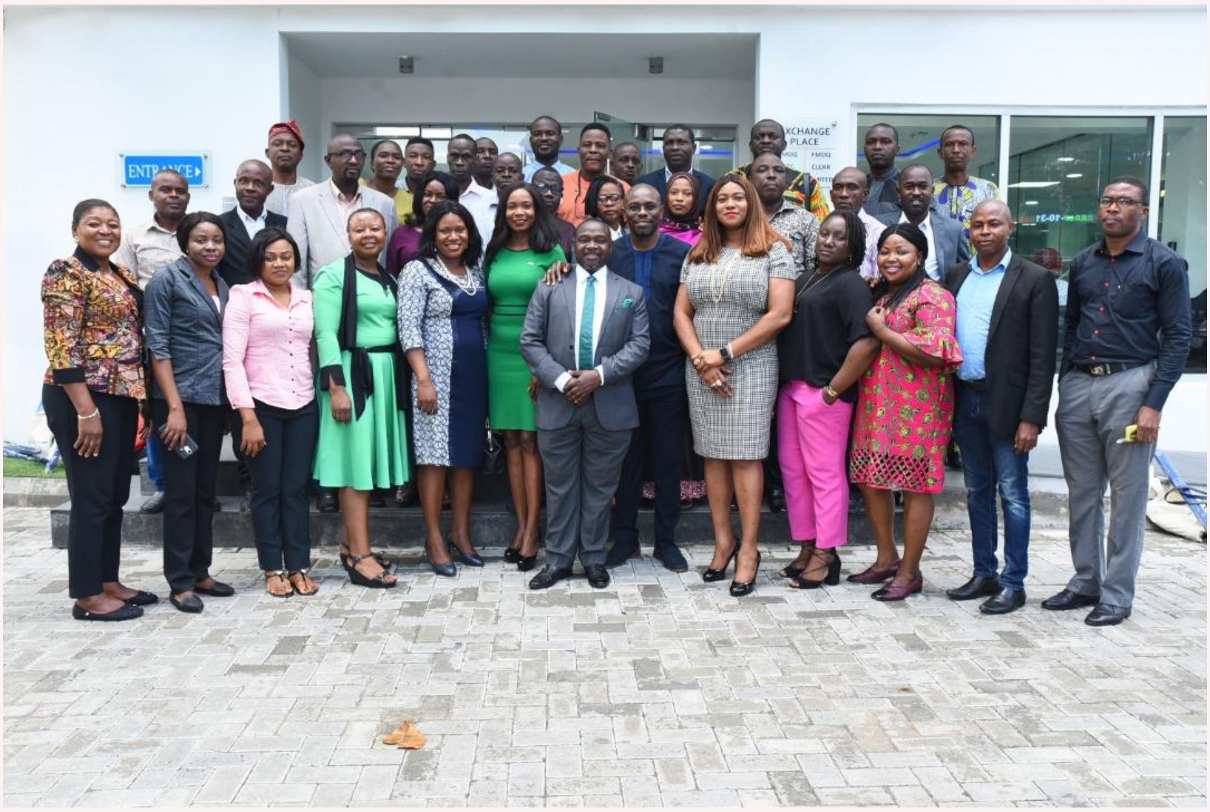
In June 2018, FMDQ OTC Securities Exchange (FMDQ or the Exchange), Financial Sector Deepening (FSD) Africa, and Climate Bonds Initiatives (CBI) - together known as the Partners - collaboratively launched the Nigerian Green Bond Market Development Programme (the Programme), with key objectives including, but not limited to, the development of green bonds as an investible capital markets instrument, development of local verifiers and support for demonstration issuances, etc. A key takeaway from the Programme Launch in June was the call for capacity development/training across the entire financial markets' ecosystem.

In line with achieving these objectives, the Partners hosted the capital markets media practioners, through its umbrella association, Capital Markets Correspondents Association of Nigeria (CAMCAN), - partners to the financial market development agenda - to an interactive Media Engagement Workshop (the Workshop) to demystify the concept of green bonds and its general applicability in the Nigerian financial markets.

The Workshop essentially focused on providing awareness and empowering the media practitioners and financial markets correspondents on the impact of climate change vis-à-vis the urgent need for sustainable financing for the Nigerian economy; and to demystify the economic opportunities offered with issuing green bonds, among others.

In addition to building capacity around this globally important discourse, the Workshop provided technical know-how towards improving the reporting of future developments in this regard by the participants, and is the first of a series of sessions within the Programme to boost the understanding and appreciation of green bonds across the financial markets value chain, including market stakeholders and policy makers.





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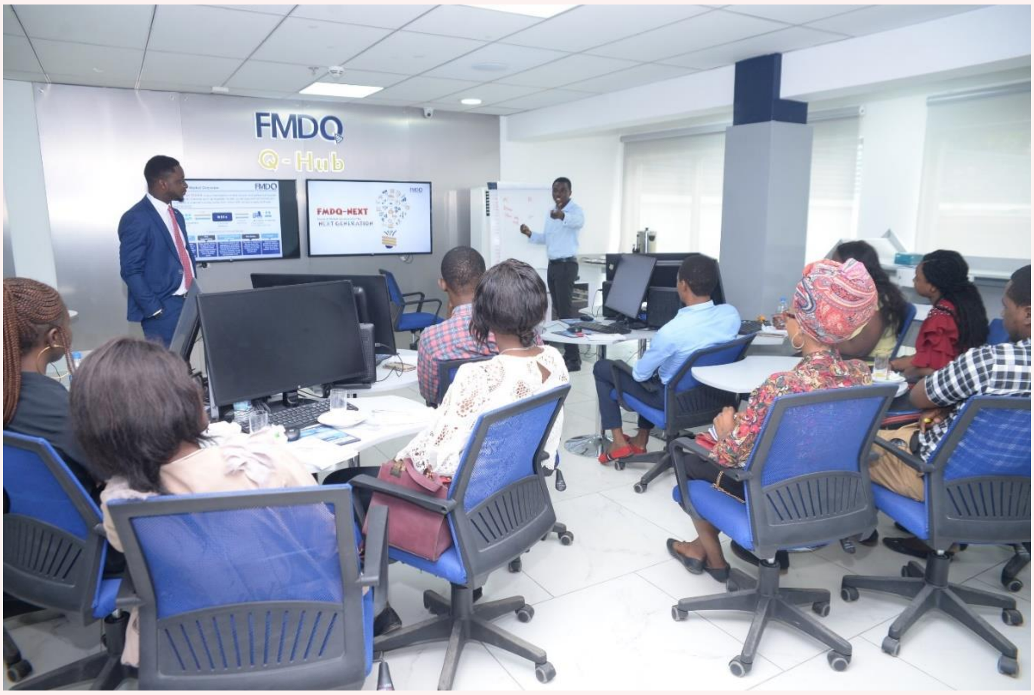
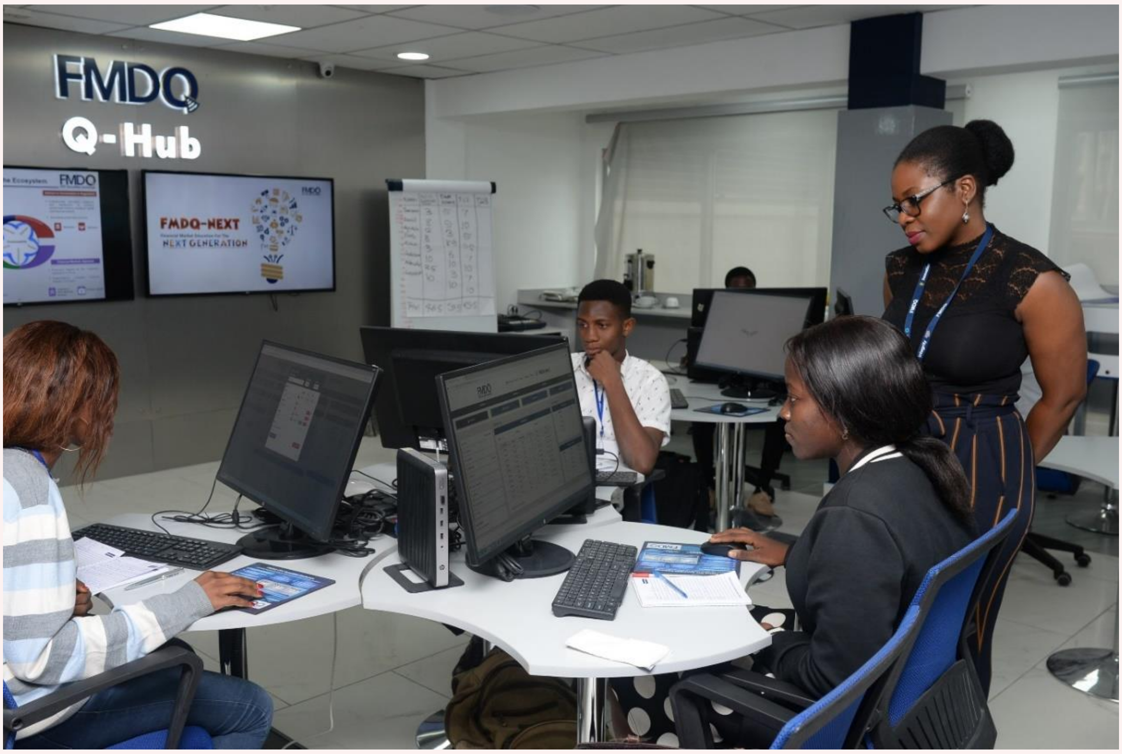
FMDQ-Next Activates “Teach-a-Class” Initiative… Empowers the Next Generation of Financial Market Doyens

FMDQ’s flagship corporate responsibility programme, the FMDQ Next Generation Financial Market Empowerment Programme (FMDQ-Next) which was activated in 2018 to foster financial markets education amongst students – primary, secondary and university levels – and fresh graduates in Nigeria, has in furtherance of this strategic drive, commenced its ‘*teach-a-class*’ initiative.

The ‘*teach-a-class*’ initiative which directly targets students at the tertiary level, including but not limited to fresh graduates as well as participants of the National Youth Service Corp (NYSC), was deployed via series of 5-day sessions running through the month of May 2019 at the FMDQ business complex, Exchange Place. From educational and interactive financial markets exercises to a host of other fun activities, participants were introduced to the concept of savings and investments, the mechanics of the foreign exchange (FX), fixed income and derivatives markets, among others. They were also given the opportunity to trade in these markets via a simulated environment, powered by FMDQ’s Q-Hub.





Acknowledging the pivotal role which the upcoming generation play in shaping the future of the nation, FMDQ is committed to providing learning and development opportunities/avenues aimed at promoting financial markets literacy as well as building capacity – '*catching them young*' – to empower the Nigerian youth.

In a similar vein, registration is ongoing for the annual **FMDQ-Next Summer Camp** Training Sessions which are availed to students at the primary and secondary school levels. These sessions are set to commence in July 2019, running through till August 2019.

Follow this link to register your child/ward: https://www.fmdqotc.com/fmdq-next-registration-form/

See **Upcoming Events** section below for more information.

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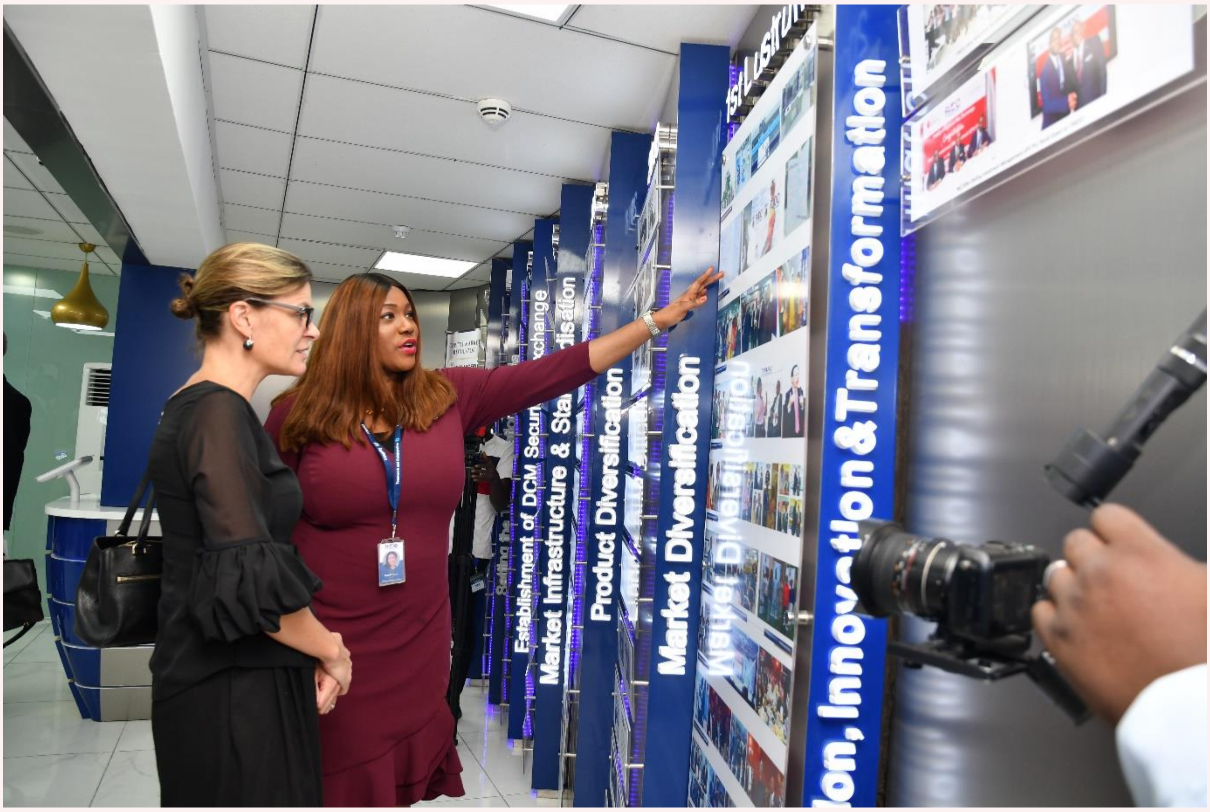
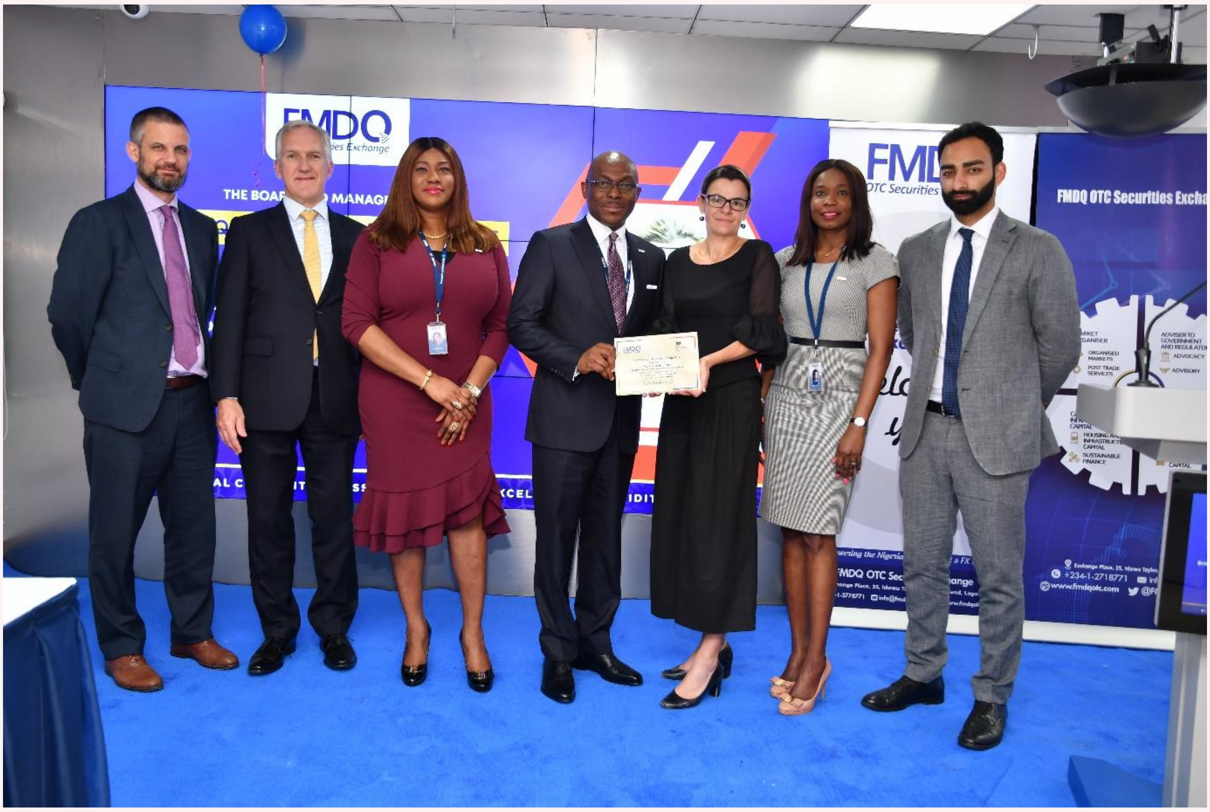
FMDQ Hosts Ms. Laure Beaufils, Outgoing British Deputy High Commissioner to Nigeria at Exchange Place

In recognition of the invaluable support from the British High Commission in Nigeria towards the advancement of the Nigerian financial markets and indeed, the economy, FMDQ hosted Ms. Laure Beaufils, the outgoing British Deputy High Commissioner to Nigeria, at Exchange Place on Monday, May 20, 2019.



Ms. Beaufils, in the company of other senior executives of the Commission including Mr. Guy Harrison, Head of Prosperity; Mr. Hamed Kamal, Head of Trade and Investment; Mr. Richard Sandall, Senior Adviser, Department of International Development, were given a tour of the Exchange Place and also the FMDQ Q-Hub, a trading simulation room for FMDQ-Next's learning and development initiative. Other major highlights of the ceremony included an 'In the Spotlight' talk session which saw the guest of honour, Ms. Beaufils, share her major achievements, challenges and experiences in her time as British Deputy High Commissioner to Nigeria.



Ms. Beaufils, during her special address, expressed her delight and appreciation to FMDQ for the warm reception and for honouring the British Deputy High Commission. She went on to note that “FMDQ and the UK Government share similar visions and objectives for the Nigerian financial market”; a vision for a prosperous Nigeria as well as a globally competitive financial market”.

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FMDQ Holds Derivatives Market Training for Market Participants

The FMDQ Derivatives Market Development Project (the "Project") was activated in 2018 to set the tone for and facilitate the launch of a standardised derivatives market in the Nigeria. In this regard and as part of the Derivatives Project Stakeholder Engagement and Sensitisation plan, FMDQ, through the FMDQ Academy franchise, kicked off a series of training sessions from April 2019. These bespoke trainings, directed at different segments and participants of the Nigerian financial markets, are designed to address the diverse interests represented in the derivatives market and provide a holistic understanding of the derivatives market ahead of the official launch of new products into the market.

The first stream of the training series which provided a holistic understanding of the Nigerian derivatives market, commenced on Monday, April 29, 2019, and ended on May 3, 2019. The 4-day training which held at the Exchange Place was attended by risk managers, securities dealers, fund/portfolio managers, traders, chief financial officers (CFOs), and investment officers, *inter alia*.

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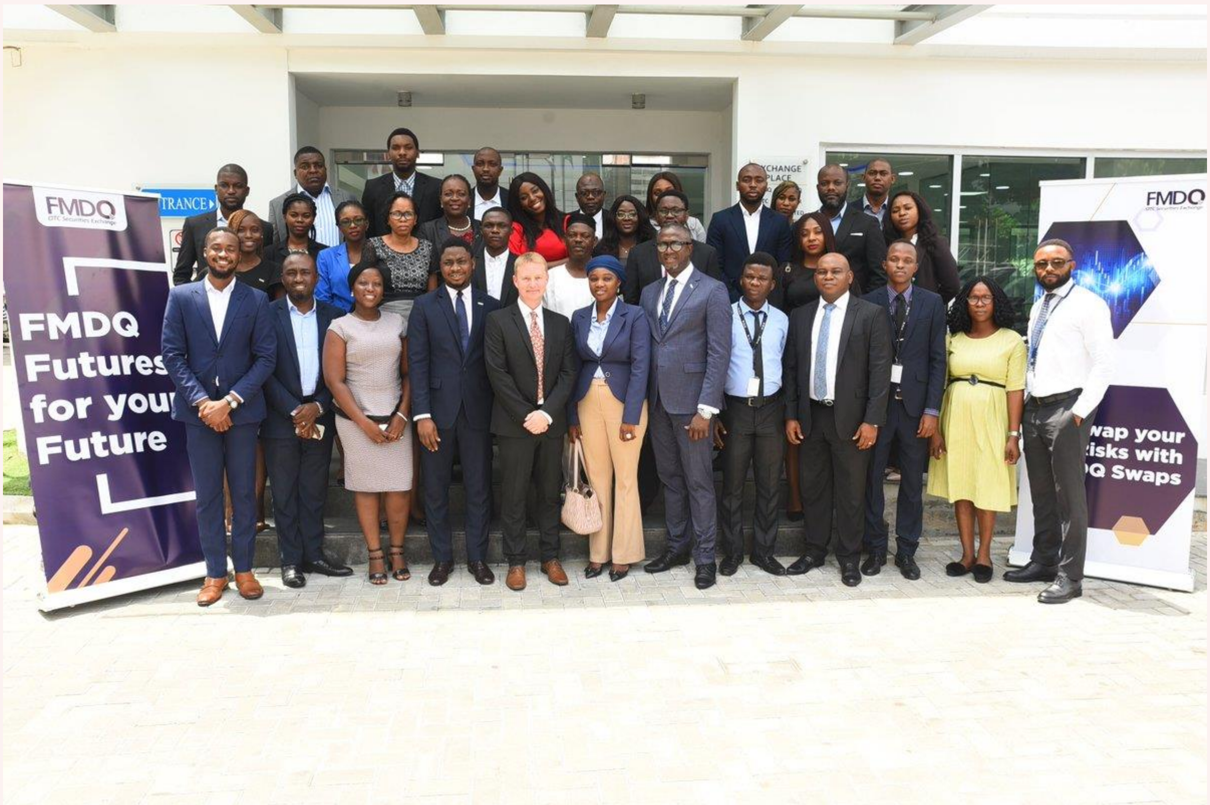
A number of these trainings are planned to hold during the course of the year. As FMDQ gears towards the launch of other derivatives products beyond the OTC FX Futures product, it is imperative that the market and indeed, all participants are well-equipped with the necessary know-how and capacity to utilise these products vis-à-vis the hedging options they present to effectively manage their risk exposures.



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US$24 Billion OTC FX Futures Contract Traded as 35th OTC FX Futures Contract Matured on FMDQ

On Wednesday, May 29, 2019, the 35th OTC FX Futures contract, NGUS MAY 29 2019, with value of $938.89 million, matured 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 $16.21 billion; with a total of about $24.43 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.

A new contract, NGUS MAY 27 2020, for $1.00 billion at $/₦362.28, was introduced by the Central Bank of Nigeria (CBN) to replace the matured contract. In addition, the apex bank refreshed its quotes on the existing 1- to 11-month contracts. These contracts quotes are published daily on FMDQ's website at www.fmdqotc.com.

For daily updates on these quotes and other market reports, follow FMDQ on Twitter @FMDQOTCExchange.

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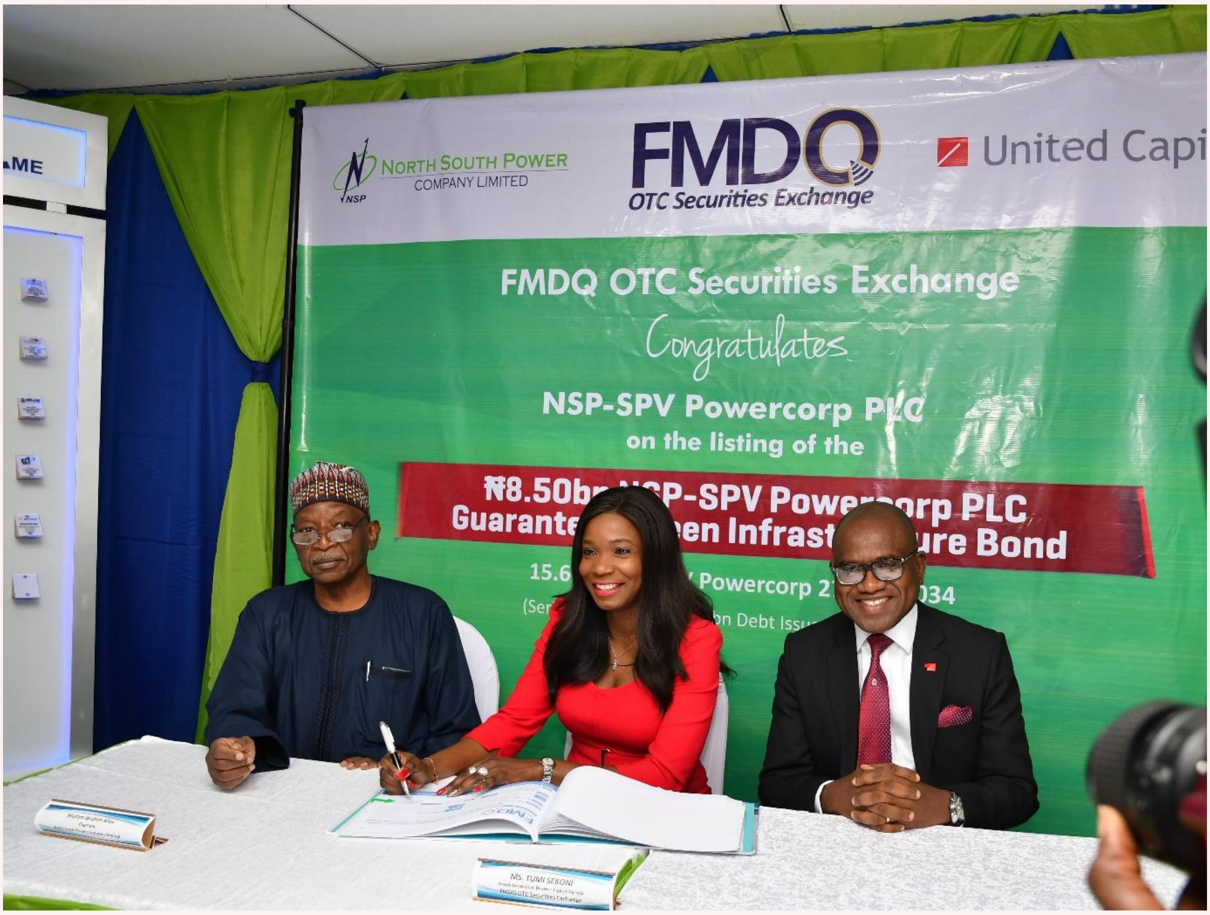
FMDQ Admits NSP-SPV PowerCorp PLC Guaranteed Green Infrastructure Bond to its Platform

Infrastructure development in the nation is taking progressive steps in the right direction, as another corporate, North South Power Company Limited ("NSP" or "Company") through NSP-SPV PowerCorp PLC, taps the Nigerian debt capital markets (DCM) for funding targeted at green infrastructure development. The listing of the NSP-SPV PowerCorp PLC Series 1 ₦8.50bn 15.60% 15-year Fixed Rate Senior Green Infrastructure Bond (the "NSP-SPV PowerCorp Bond") under its ₦50.00bn Bond Issuance Programme, guaranteed by Infrastructure Credit Guarantee Company Limited ("InfraCredit"), on FMDQ is the latest of these laudable initiatives that are paving the way for the infrastructure development via the Nigerian DCM. NSP, a first-time issuer in the domestic bond market, is an Africa-focused electricity generation company with a diverse and emerging portfolio focused on the electricity value chain, with special emphasis on renewable energy systems such as solar, electric, thermal, wind and hydro power plants.

To commemorate this remarkable achievement, FMDQ, in keeping with its tradition, held a listing Ceremony at its business complex, Exchange Place, on Wednesday, May 8, 2018. Present to celebrate the successful admission of NSP-SPV PowerCorp Bond on FMDQ were the issuer, NSP-SPV PowerCorp PLC, represented by the Executive Chairman, Mallam Ibrahim Aliyu, the Executive Vice Chairman/Chief Executive Officer, Dr. Olubunmi Peters, and other representatives of North South Power Company Limited. Also present at the Ceremony were the sponsor of the issue and the Registration Member (Listings) of FMDQ, United Capital PLC, represented by the Group Chief Executive Officer, Mr. Peter Ashade, the guarantor to the bond, Infrastructure Credit Guarantee Company Limited, represented by the Chief Executive Officer, Mr. Chinua Azubike and representatives from the Joint Issuing House, Stanbic IBTC Capital Limited, Vetiva Capital Management Limited and Zenith Capital Limited, as well as the solicitor to the listing, Banwo & Ighodalo and other parties to the issue.

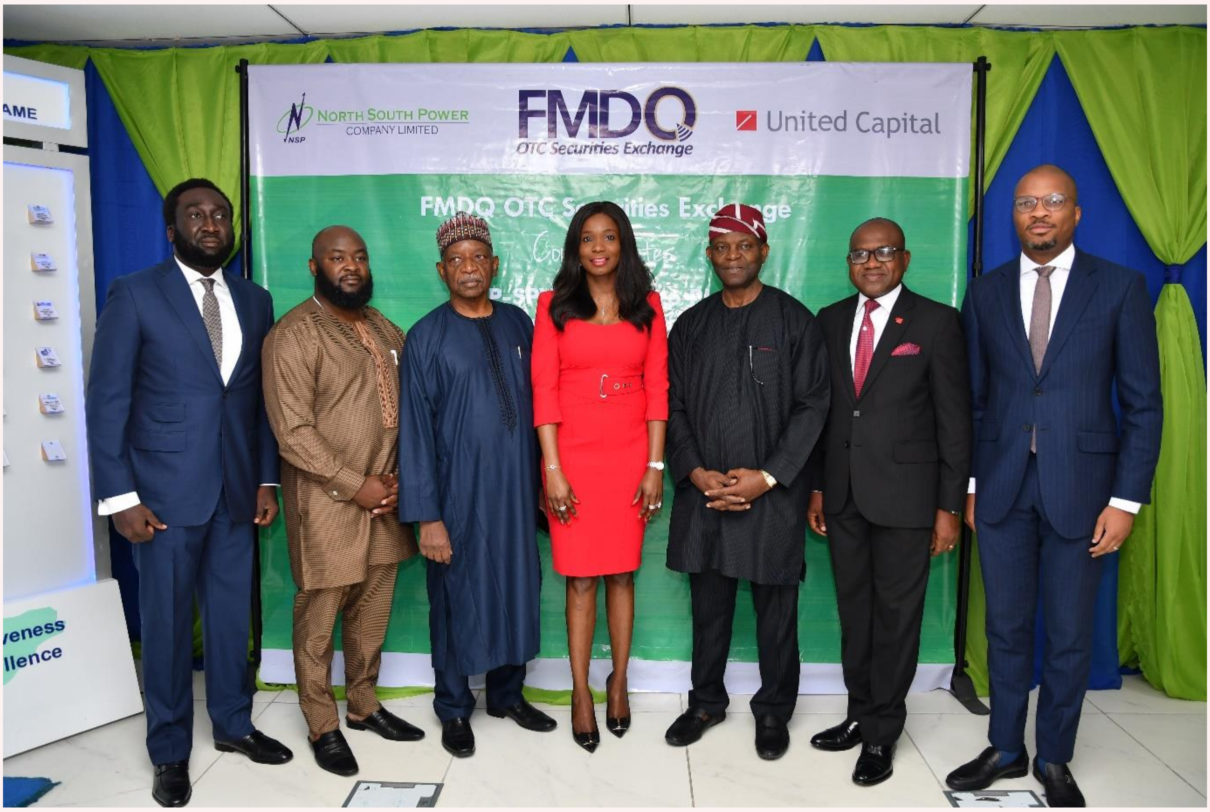
Ms. Tumi Sekoni, Associate Executive Director, Capital Markets, FMDQ, who welcomed the guests, congratulated the issuer, NSP-SPV PowerCorp PLC, and went on to express FMDQ's pleasure at the listing of a green infrastructure bond on its platform, stating that this is yet another highly exemplary and indeed, positive step towards addressing some of the infrastructural and environmental challenges in the nation.

Dr. Olubunmi Peters, on behalf of the issuer stated that, "the issuance of the first corporate green infrastructure bond in Nigeria is a significant milestone in the Company's long-term corporate strategy, demonstrating our market leadership, innovation and commitment to the highest standards of environmental, social and corporate governance. The success of the transaction further highlights the growing appetite for socially responsible investment in the Nigerian DCM. This Series 1 ₦8.5 billion 15 Year 15.60% Guaranteed Fixed Rate Senior Green Infrastructure Bond provides a new vista of opportunity not just for companies in the financial sector, but for other corporate companies in Nigeria."



Delivering the Registration Member (Listings) remarks, Mr. Peter Ashade, highlighted, "to cater for sustainable environmental development in Nigeria, the need for financing cannot be understated. United Capital PLC is delighted to have played the financial advisory and lead issuing house role in North South Power's long-term strategy in issuing the first corporate green infrastructure bond in Nigeria. We remain committed to making significant contributions to the Exchange and to the success of our esteemed clients through our expertise and innovation in the Nigerian DCM. We believe that listing this instrument will pave the way for other environmentally friendly instruments thereby establishing a robust domestic capital market."

According to Mr. Chinua Azubike, Chief Executive Officer of InfraCredit, guarantor to the bond, “transitioning Nigeria’s economy to a sustainable development path has become an existential imperative. As the largest source of long-term investment capital, the domestic bond market has an especially important role to play as an effective investment tool to finance the country’s transition to a low-carbon economy. We are pleased to have supported North South Power Company Limited with our guarantee, in pioneering this sustainable path by issuing the first corporate green infrastructure bond with the longest tenor in sub-saharan Africa.”



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FBNQuest Merchant Bank Limited Raises Additional Capital from the Commercial Papers Market; Quotes the Securities on FMDQ

The commercial papers market continues to provide issuers renewed opportunity to grow their businesses and restore the much-needed confidence of investors, whilst contributing to the overall growth of the Nigerian economy.

FMDQ, having positioned itself to transform the Nigerian DCM, has successfully approved the Quotation of the FBNQuest Merchant Bank ₦3.84bn Series 7, ₦0.98bn Series 8 and ₦3.22bn Series 9 Commercial Papers under a ₦100,000,000,000 Commercial Paper Issuance Programme on the FMDQ Platform.

With its streamlined and efficient registration process, FMDQ has continued to show its steadfastness in aligning the Nigerian DCM to international standards, through the promotion and provision of a world-class Listings and Quotations service, availing issuers and investors global visibility, confidence and protection in the markets.

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CERPAC Receivables Funding SPV PLC Lists its Bonds on FMDQ

FMDQ, in maintaining its support for the development of the Nigerian DCM, continues to efficiently enhance the registration, listing, quotation and trading of debt securities in the Nigerian financial markets space.

On this note, FMDQ welcomed on its platform, the Listing of CERPAC Receivables Funding SPV PLC Series 1 ₦12.50bn 15.25% and Series 2 ₦1.60bn 15.50% Fixed Rate Bonds under its ₦25.00bn Medium-Term Programme.

The successful admittance of this security, following due approval from the FMDQ Board Listings, Markets and Technology Committee, is a testament of the efficient time to market and 'second-to-none' Listings and Quotations service offered by FMDQ. Further information on the listing ceremony shall be provided in due course.

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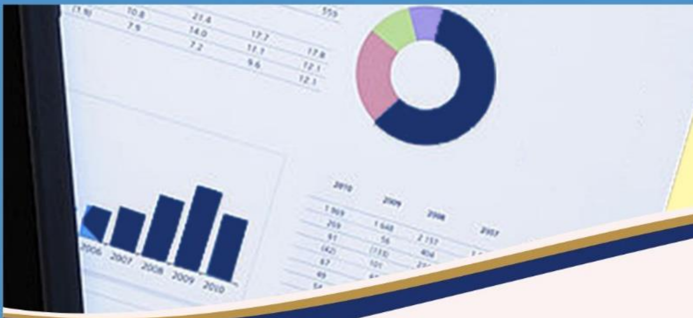

FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – 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 – April 2019)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	20,055,535	55,479
Foreign Exchange Derivatives	10,188,602	28,183
Treasury Bills	29,935,639	82,754
FGN Bonds	3,967,766	10,974
Other Bonds*	132	0
Eurobonds	61,955	171
Repurchase Agreements/Buy-Backs	15,008,390	41,526
Unsecured Placements/Takings	384,613	1,064
Money Market Derivatives	7,500	21
Commercial Papers	-	-
Total	**79,610,131**	**220,172**

No. of Business Days	82	82
Average Daily Turnover	**970,855**	**2,685**

Average YTD $/₦ @ 361.79
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 @ May 3, 2019; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover forJanuary - April 2019 amounted to ₦79.61trn. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 37.99% of the market. T.bills transactions accounted for 37.60%, whilst Repurchase Agreements (Repos)/Buy-Backs product categories accounted for 18.85%, and Bonds, Unsecured Placements & Takings and Money Market Derivatives representing 5.06%, 0.48% and 0.01% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - April 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	STANBIC IBTC BANK PLC
2	UNITED BANK FOR AFRICA 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	ZENITH BANK PLC
10	WEMA BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 77.25% (₦61.50trn) of the overall turnover in the market, with the top three (3) accounting for 43.09% (₦34.31trn) of this sub-section of the market. Stanbic IBTC Bank PLC, United Bank for Africa PLC and Access Bank PLC remained leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

Click here to view FMDQ Fixed Income Primary Markets Sponsors' Quarterly League Table (Q1 2019) - Registration Member (Listings & Quotations).

Click here to view FMDQ Fixed Income Primary Markets Solicitors' Quarterly League Table (Q1 2019).

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UPCOMING EVENTS

H1 2019 Members Only Meeting

The Members Only meeting provides a platform where FMDQ 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.The first bi-annual FMDQ Members Only meeting for 2019 has been scheduled to hold on Friday, June 21, 2019.

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.

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FMDQ-Next Summer Camp 2019

The 2019 edition of the FMDQ-Next Summer Camp, a novel initiative of the FMDQ's Next Generation Financial Market Empowerment Programme ("FMDQ-Next"), targeted at primary and secondary school students, is set to commence from July 2019 running through till August 2019.

Participants will be exposed to learning around financial markets, personal finance and other exciting topics. Practical and hands-on experience shall also be availed to these students via FMDQ's bespoke trading simulation room, FMDQ Q-Hub.

Registration is ongoing for these Sessions. It promises to be an interesting experience with lots of fantastic prizes and treats to be won.

Follow this link to register your child/ward: https://www.fmdqotc.com/fmdq-next-registration-form/

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FMDQ-Next 2019 SUMMER CAMP

Financial Market Education | Trading Simulation Exercises | Fun Games & Activities | Quizzes & Competitions

Stream 1: July 22 – 31, 2019

Stream 2: August 5 – 16, 2019

Stream 3: August 21 – 30, 2019

Admission is FREE!
Limited Spaces Available

FANTASTIC PRIZES TO BE WON!

10:00 AM – 2:00 PM

The **FMDQ Next Generation Financial Market Empowerment Programme (FMDQ-Next)** is a learning and development initiative aimed at promoting financial market awareness and literacy among students across all levels (primary, secondary and tertiary), as well as fresh graduates within the country.

Register now at www.fmdqotc.com

Exchange Place, 35, Idowu Taylor Street, Victoria Island, Lagos.

+234-9070047626 fmdq-next@fmdqotc.com www.fmdqotc.com @FMDQOTCExchange

Non-Deliverable Forwards

A company requiring a certain amount of foreign currency at a predetermined future date, faces the risk that the exchange rate may move in an adverse direction by the time the requirement falls due. In order to mitigate this risk, it can enter into an agreement called a Forward Contract (often referred to as a Forward). A Forward Contract is an agreement to buy or sell an asset at a certain future time for a certain price. In essence, the Forward Contract allows a company to buy the foreign currency at a specified point in the future, at a price fixed today.

The company may also enter into a Non-Deliverable Forward (NDF) contract. An NDF, although broadly similar to a Forward, is a cash-settled, short-term Forward or Futures contract, where parties agree to a rate/price for a predetermined date in the future, without the obligation to deliver the notional amount on maturity. The NDF is settled at maturity for the difference in the Spot FX rate and the NDF rate. As settlement is done in cash, one party compensates the other with an amount reflecting the difference between the contracted forward rate and the value of the designated 'fixing' rate (the representative spot market rate), as is the case with the "Naira-settled OTC FX Futures" offered by the CBN and traded on FMDQ.

These contracts [Naira-settled OTC FX Futures] are NDFs where parties agree to an exchange rate for a predetermined date in the future, without the obligation to deliver the underlying US Dollars (the notional amount) on the maturity/settlement date. On the maturity date, it will be assumed that both parties would have transacted at the Spot FX market rate, which will be the FMDQ Spot FX Rate Benchmark – Nigerian Autonomous Foreign Exchange Fixing (NAFEX) – used for settlement.

The party that would have suffered a loss with the Spot FX rate will be paid a settlement amount in Naira. This ensures that both parties enjoy the rate that had been guaranteed to each other through the OTC FX Futures.

Uses of Non-Deliverable Forwards

- The demand for NDFs arises principally out of regulatory and liquidity issues in the underlying currency, where overseas players have limited or no access to the domestic market
- They are typically utilised by banks, multinational corporations, investment managers, and proprietary traders to hedge currency risk

- They are used as a planning tool in managing the currency risks associated with exporting or importing products purchased in foreign currency, investing or borrowing overseas, repatriating profits, or settling other FX contractual arrangements
- They are also used as a tool to facilitate locking in the enhanced yields of currencies

Terms associated with Non-Deliverable Forwards

- **Notional**: This is the face value of the NDF to be transacted
- **Fixing Date:** This is the date at which the difference between the prevailing Spot market exchange rate and the agreed upon NDF rate is calculated
- **Settlement Date**: This is the date on which the payment of the difference between the NDF and spot rate is paid
- **Effective Date:** This is the date when the NDF contract takes effect, usually the trade date
- **Maturity Date:** This is the date the contract expires

Key differences between Non-Deliverable Forwards and Forwards

NDF contracts are similar to Forward contracts, however, they do differ in some respect, as shown in the table below.

S/N	Non-Deliverable Forwards	Forwards
1.	Margin required to be posted at contract initiation. The margin will require marking-to-market, with the one party's account being credited with the difference while the other's account is reduced by same.	No margin requirement. Contracts are settled at maturity and do not require marking-to-market or parties to the contract settling up until the expiration of the contracts.
2.	There is no physical settlement of the asset at maturity.	The asset is physically settled at maturity.
3.	NDFs bear lower counterparty risk since the notional sum is not moved at any point during the transaction.	Forwards bear a higher counterparty risk as mark-to-market and settlement of the transaction are only done at maturity.

Key Benefits of Non-Deliverable Forwards

1. There are no up-front costs
2. They provide protection against unfavourable foreign exchange rate movements between the time an NDF contract is executed and the maturity date
3. They are flexible and the maturity date and contract amount can be tailored to meet specific requirements
4. They help improve planning and capital budgeting as companies can make forecasts on budgets and investments with a greater degree of certainty

5. They improve management of foreign exchange risk as companies can hedge against cash flow shortfalls
6. They increase predictability of financial results as hedging enables companies deliver more predictable earnings by aligning their corporate hedging strategy to future FX cash flows in order to reduce the impact of currency volatility
7. They serve as hedging tools for foreign investors with local currency exposure, allowing corporates and other investors hedge or take investment positions offshore on local currency movements without dealing in the underlying

Risks associated with Non-Deliverable Forwards

1. They are not perfect hedges against exposures, as any benefit of a favourable exchange rate movement, between the time the NDF is executed and the maturity date, may be foregone
2. There is some exposure to counterparty and credit risks. In the event that a party to the contract is unable to perform their obligations under the NDF contract, the other party may be exposed to market exchange rate fluctuations as if the NDF contract was not executed. This is however mitigated by the posting of initial and variation margins
3. There are charges for any cancellations or adjustments to the contract
4. There is potential for limited liquidity in this specialised product

In conclusion, an NDF represents a useful risk management tool used to hedge currency fluctuations. NDFs should be used where there is a need to manage currency risk associated with a currency pair and not for speculative purposes.

In the next edition of the Newsletter, more insight shall be provided into the Naira-settled OTC FX Futures as a type of NDF currently being traded on FMDQ.

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