FMDQ SPOTLIGHT

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FMDQ
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FMDQ Commemorates International Women's Day

On March 8, 2019, the international community celebrated the International Women's Day, a day set apart to celebrate the social, economic, cultural and political achievements of women all over the world, and FMDQ OTC Securities Exchange ("FMDQ" or the "Securities Exchange"), in solidarity with the world and acknowledging the important role women play in the community at large, joined in celebrating the International Women's Day, in line with the global theme for 2019 #BalanceforBetter.

FMDQ commemorated this year's International Women's Day with an event for its staff, which featured, amongst others, a short documentary of FMDQ staff speaking on women who have greatly inspired them, a special address on 'Empowering Women to Break the Glass Ceiling', facilitated by a well-respected financial market titan, Mrs. Hajara Adeola, Managing Director/CEO of Lotus Capital, as well as spoken word/poetry from FMDQ staff. In solidarity with securities exchanges worldwide, FMDQ also 'rang the bell' for gender equality at its offices, Exchange Place, Lagos.

As a progressive organisation that prides itself in empowerment and gender parity, FMDQ will remain committed to the values of sustainability in its drive to empower the financial markets in support of the Nigerian economy.

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FMDQ Hosts RIMAN Q1 2019 Quarterly Risk Round Table

As part of FMDQ’s strategy to drive the development of the Nigerian derivatives market, through its Derivatives Market Development Project, the Securities Exchange partnered with the Risk Management Association of Nigeria (“RIMAN” or “Association”) to host their Q1 2019 Quarterly Risk Round Table on March 8, 2019, at FMDQ’s business complex, Exchange Place, Lagos. The well-attended roundtable focused on the Introduction of Risk Management in Derivatives Market and the role of FMDQ in the development of the Derivatives Market in Nigeria.

Ms. Kaodi Ugoji, Associate Executive Director, Corporate Development, FMDQ, whilst delivering the welcome address, commended the efforts of RIMAN in championing the awareness of risk management in the Nigerian financial market, stating that this was in line with FMDQ’s agenda to facilitate capacity building and market education for market participants and the general public, through its Academy – the FMDQ Academy, and appreciated the Association for partnering with FMDQ to host the roundtable.

The President of RIMAN, Mr. Magnus Nnoka, whilst delivering his speech, noted, “RIMAN was advancing in its effort to extend risk management education to all sectors of the economy and African countries, with the recent establishment of RIMAN Risk Management Institute”.

Mr. Allan Ralph Thomson, MD/CEO, Dreadnought Capital, South Africa and Ms. Jumoke Olaniyan, Vice President, Market Architecture, FMDQ, led the team in delivering excellent presentations on derivatives risks at the roundtable.

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PenCom, in Conjunction with FMDQ, CBI and FSD Africa, Hosts Green Bonds Investors Workshop for Pension Industry Operators

Further to the launch of the Nigerian Green Bond Market Development Programme (the Programme) in June 2018, the National Pension Commission (PenCom), in conjunction with the Programme, successfully executed an Investors Workshop (the "Workshop") for the Pension Fund Operators. This was anchored on the premise to continuously build capacity in the pension community following the engagement of the Programme partners – FMDQ, Climate Bonds Initiative (CBI) and Financial Sector Deepening (FSD) Africa – with PenCom and the Pension Funds Administrators (PFAs).

As a key component of the Programme is to facilitate market education workshops for capital market operators, the Workshop aimed at equipping participants on green bond pricing strategies, role of external reviews, de-risking concepts such as guarantees/intervention structures and investment strategies deployed by leading international green bond investors.

Giving the keynote address, Hajia Aisha Dahir-Umar, the Ag. Director-General, PenCom, represented by Mr. Ehimeme Ohioma, Head of Surveillance Department, appreciated the Programme partners for collaborating with PenCom to drive the sustainable investing initiative in Nigeria necessary to galvanise the development of a vibrant domestic Green Bond market.

In his welcome address, Mr. Bola Onadele. Koko, Managing Director/CEO, FMDQ, appreciated the pension community for honouring the invitation and showing their support for the Programme and what it aims to achieve, whist also appreciating the Programme partners for their continuous support in ensuring the Nigerian debt capital markets is transitioned from a two-dimensional risk and return analysis to a four-dimensional risk, return, re-allocation and impact analysis.

Dr. Evans Osano, Director, Capital Markets Development, FSD Africa, explained the role of FSD Africa in the development of the Green Bond markets across Africa. He highlighted the potentials in creating sustainable pipeline of projects and the available funding/grants being provided to support these initiatives.

Mr. Olumide Lala, Africa Programme Manager, CBI, whilst ushering in the panel sessions, gave an overview of the state of the global Green Bond markets, the environmental hazards and other negative effects of climate change in Nigeria and the importance of exploring the possible transition to a low carbon economy with Green Bonds as a financing tool for climate-friendly project pipelines. He emphasised the need for more capacity building and development among key stakeholders and other market participants in the financial markets.

The Workshop, which held at the Radisson Blu Anchorage Hotel, Victoria Island, Lagos, was well-attended by Chief Executive Officers, Chief Investment Officers and Chief Compliance Officers of

Pension Industry Operators, and was executed via case studies presentations and panel-style sessions on the opportunities in the Green Bond market, as well as discussions on challenges faced by issuers with practical strategies in instituting de-risking mechanisms.

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FMDQ Marks Global Money Week

As part of FMDQ's commemoration of Global Money Week, an annual financial awareness campaign built to inspire children and young people to learn about money matters, livelihoods and entrepreneurship, the FMDQ Next Generation Financial Market Empowerment Programme (FMDQ-Next), hosted the Nigerian Economics Students Association of Covenant University at its business complex, Exchange Place. FMDQ-Next is FMDQ's flagship corporate responsibility programme, 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.

The aim of the excursion, which has student across various levels of study, was to expose the participants to the operations of the Exchange, providing them with a history as well as the roles played by FMDQ and other financial market participants in the Nigerian financial market.

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The day commenced with a tour around Exchange Place, where the Students where shown around the FMDQ Q-Hub – a bespoke trading simulation room for FMDQ-Next, Archives - a well-equipped history room which tells the story of FMDQ's evolution, and Media Room - a world-class media room for the efficient dissemination of market-impacting news and information about FMDQ and its markets. They also experienced a Live Market Trading Session, where they were learnt about securities traded in FMDQ's markets, amongst other things.

They also had an opportunity to learn about the different functions carried out within the Exchange, the different markets that exist, the market players, the importance of savings and investments, amongst others. The Excursion ended with a session with Executive Management, where the students were privileged to ask questions about the workings of the financial market as well as personal career planning.

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33rd OTC FX Futures Contract Matures and Settles on FMDQ

On Wednesday March 27, 2019, the 33rd OTC FX Futures contract - NGUS MAR 27 2019 - with value of $505.25 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 $14.84 billion; with a total of about $22.05 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-three (33) maturities, introduced a new contract, NGUS MAR 25 2020, for $1.00 billion at $/₦362.29 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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Flour Mills of Nigeria PLC and UACN Property Development Company PLC Raise Capital from the Commercial Paper (CP) Market

FMDQ maintains its support for the development of the Nigerian commercial paper (CP) market by steadfastly availing its highly efficient and credible platform for the registration, listings, quotations, noting, trading and reporting of debt securities. Accordingly, the month of March saw key activities in the CP quotations space on the Securities Exchange, wherein the Board Listings, Markets and Technology Committee of FMDQ approved the quotations of Flour Mills of Nigeria PLC ₦5.18 billion Series 5 and ₦1.74 billion Series 6 CP under a ₦100.00 billion CP Issuance Programme and UACN Property Development Company PLC ₦5.62 billion Series 32 and ₦7.96 billion Series 33 CP under a ₦24.00 billion CP Issuance Programme, to its platform.

In addition to the efficient registration process, the quotations of these CPs on FMDQ, will avail Flour Mills of Nigeria PLC and UACN Property Development Company PLC benefits which include, but are not limited to, enhanced investor confidence in the issuers, transparent/relevant information disclosure on the issues, effective price formation and global visibility.

In line with its strategic objectives to support institutional growth and stimulate continuous development of the economy at large, FMDQ has shown its steadfastness in aligning the Nigerian debt capital markets to international standards, through the promotion and provision of a world-class quotations service, availing issuers and investors the much-needed global visibility, confidence and protection in the markets.

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

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 – FX, T.bills, Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)) CPs 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 – February 2019)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	7,908,610	21,789
Foreign Exchange Derivatives	4,057,422	11,178
Treasury Bills	14,844,515	40,898
FGN Bonds	1,734,390	4,779
Other Bonds*	111	0
Eurobonds	33,771	93
Repurchase Agreements/Buy-Backs	5,536,971	15,255
Unsecured Placements/Takings	151,987	419
Money Market Derivatives	-	-
Commercial Papers	-	-
Total	**34,267,777**	**94,411**
No. of Business Days	39	39
Average Daily Turnover	**878,661**	**2,421**

Average YTD $/₦ @ 363.07
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 @ March 7, 2019; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for January - February 2019 amounted to ₦34.27 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 43.32% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 34.92% whilst Repos/Buy-Backs product categories (Repos/Buy-backs) accounted for 16.16%, and Bonds and Unsecured Placements & Takings representing 5.16% and 0.44% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - February 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	CORONATION MERCHANT BANK LTD
8	CITIBANK NIGERIA LIMITED
9	FIRST CITY MONUMENT BANK LIMITED
10	ZENITH BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 74.79% (₦25.63 trillion) of the overall turnover in the market, with the top three (3) accounting for 50.30% (₦12.89 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, United Bank for Africa PLC and Access Bank PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

Click here to view **Q4 2018 FMDQ League Table Reports for Top Ranking Registration Member (Listings & Quotations) and Solicitors.**

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Introduction to Repurchase Agreements (Repos) (Part 1)

The Feburary 2019 edition of the FMDQ Spotlight provided an overview of Infrastructure Bonds and its different elements - characteristics of infrastructure bonds, benefits of infrastructure bonds, amongst others. This month's edition of FMDQ Spotlight is the first of a two-part series on Repurchase Agreements (Repos), and this edition will focus on the definition of repo, terminologies used in repo market, uses of repo, types of repo in the financial markets and the risks associated with repos.

What is Repo?

Repurchase Agreements, also known as repos, are defined as an agreement in which one party sells securities or other assets to a counterparty, and simultaneously commits to repurchase the same securities or assets from the counterparty, at an agreed future date or on demand. They are classified as money-market instruments and are usually used to raise short-term funds. The party that buys the securities acts as a lender while the seller acts as a borrower, using the securities involved as collateral for a secured cash loan at a fixed rate of interest. In some scenarios, the repurchase price will be greater than the original sale price, the difference effectively representing interest and sometimes called the repo rate.

A repo is almost equivalent to a spot sale combined with a forward contract. The spot sale results in transfer of money to the borrower in exchange for legal transfer of the security to the lender, while the forward contract ensures repayment of the loan to the lender and return of the collateral of the borrower. The difference between the forward price and spot price is effectively the interest on the loan. The settlement date of the forward contract is the maturity date of the loan.

The seller (borrower) gets to use the cash proceeds from the sale of the securities, whilst the buyer (lender) gets legal title to the securities received in exchange for the cash paid. The buyer holds the securities in the first instance as collateral. If the seller defaults on the repurchase, the buyer can liquidate the securities to recover the cash. For the party selling the security and agreeing to repurchase in the future, it is a repo, while for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a reverse repo.

Repo Terminology

Term	Definition
Seller	Collateral-provider, cash-taker (borrower)
Buyer	Collateral-taker, cash-provider (lender)
Purchase	Purchase of asset at the start of a repo
Repurchase	Repurchase of asset at the end of a repo transaction
Purchase Date	Value date; the date on which cash and assets are exchanged
Repurchase Date	Maturity date; the date on which cash and assets are returned to their original owners
Purchase Price	Cash value paid by the buyer to the seller on the purchase date
Repurchase Price	Cash value paid by the seller to the buyer on the repurchase date; equal to the purchase price plus a return on the use of the cash over the term of the repo
Collateral	Security/asset sold in a repo on the purchase date
Equivalent Collateral	Security/asset repurchased in a repo by the seller on the repurchase date
Repo Rate	Percentage per annum rate of return paid by the seller for the use of the cash over the term of a repurchase agreement and included in the repurchase price

Uses of Repo

For buyers (lenders): A repo is an opportunity to invest cash for a period of time to receive collateral in exchange. It is a relatively safe and secure investment since the investor receives collateral, which has the effect of reducing credit risk. The attraction of the repo market for lenders is enhanced by the fact that the reduced credit risk on lending through repo means that their loans are subject to lower regulatory capital requirements, which improves the return on their cash.

For sellers (borrowers): A repo is used to finance long positions, obtain access to cheaper funding costs of other investments, and cover short positions in securities.

Types of Repos

- **Sell/buy-back**– This is the spot sale and a forward repurchase of a security; two (2) distinct outright cash market trades. Sell/buy-backs are generally similar to a classic repo; however, a formal agreement is not put into place when executing a sell/buy-back transaction
- **Reverse repo** - This is simply the same repo from the buyer's viewpoint. Hence, the seller executing the transaction would describe it as a "repo", while the buyer in the same transaction would describe it a "reverse repo"
- **Tri-party repo** – In a tri-party repo, a custodian bank or international clearing organisation, usually called a tri-party agent, acts as an intermediary between the two (2) parties to the repo. The agent is responsible for the administration of the transaction including collateral allocation, mark-to-market and substitution of collateral

- **Securities lending** – Securities lending is another type of repo. The purpose of this is to temporarily obtain a security for other purposes such as covering short positions. Securities are generally lent out for a fee, and securities lending trades are governed by different types of legal agreements than repos
- **Due bill/hold in-custody repo** – This has grown less common in the repo market. The collateral pledged by the borrower is not actually delivered to the cash lender but is placed in an internal account held in custody by the borrower for the lender throughout the duration of the trade. Due to the high risk to the cash lender, these are generally only transacted with large, financially stable institutions
- **Whole loan repo** – A form of repo where the transaction is collateralised by a loan or other form of debt obligation instead of a financial security. For example, they might use a mortgage loan instead of bonds

Risk Considerations

While repos are generally credit-risk mitigated instruments, there are residual credit risks. Despite the fact that it is essentially a collateralised transaction, the seller may fail to repurchase the securities sold, at the maturity date. In other words, the repo seller defaults on their obligation. Consequently, the buyer would keep the security and liquidate to recover the cash lent. The security, however, may have lost value since the outset of the transaction, as the security is subject to market movements. To mitigate this risk, repos are often over-collateralised as well as being subject to daily mark-to-market margining (i.e., if the collateral falls in value, a margin call can be triggered asking the borrower to post extra securities).

The repo market has a significant role to play in the Nigerian financial markets. It is pivotal to the efficient working of financial markets by providing liquidity, marketability and offering opportunities for the mitigation of credit risk. Its importance reflects the wide range and fundamental nature of its functions which include, provision of efficient source of short-term funding; provision of a secure and flexible choice of liquid investment; financing leveraged investors and covering short investors, amongst others.

FMDQ, in its capacity as a market organiser, will not relent on its efforts to support the development of repo market in Nigeria, building on existing practices in the money and fixed income markets, as well as incorporating internationally accepted best practices, in line with its mandate to make the Nigerian financial markets them Globally Competitive, Operationally Excellent, Liquid and Diverse.

The second edition of the series will focus on the role of repo in the financial markets, as well as the relevant players/stakeholders in repo market, amongst other topics.

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