FMDQ SPOTLIGHT

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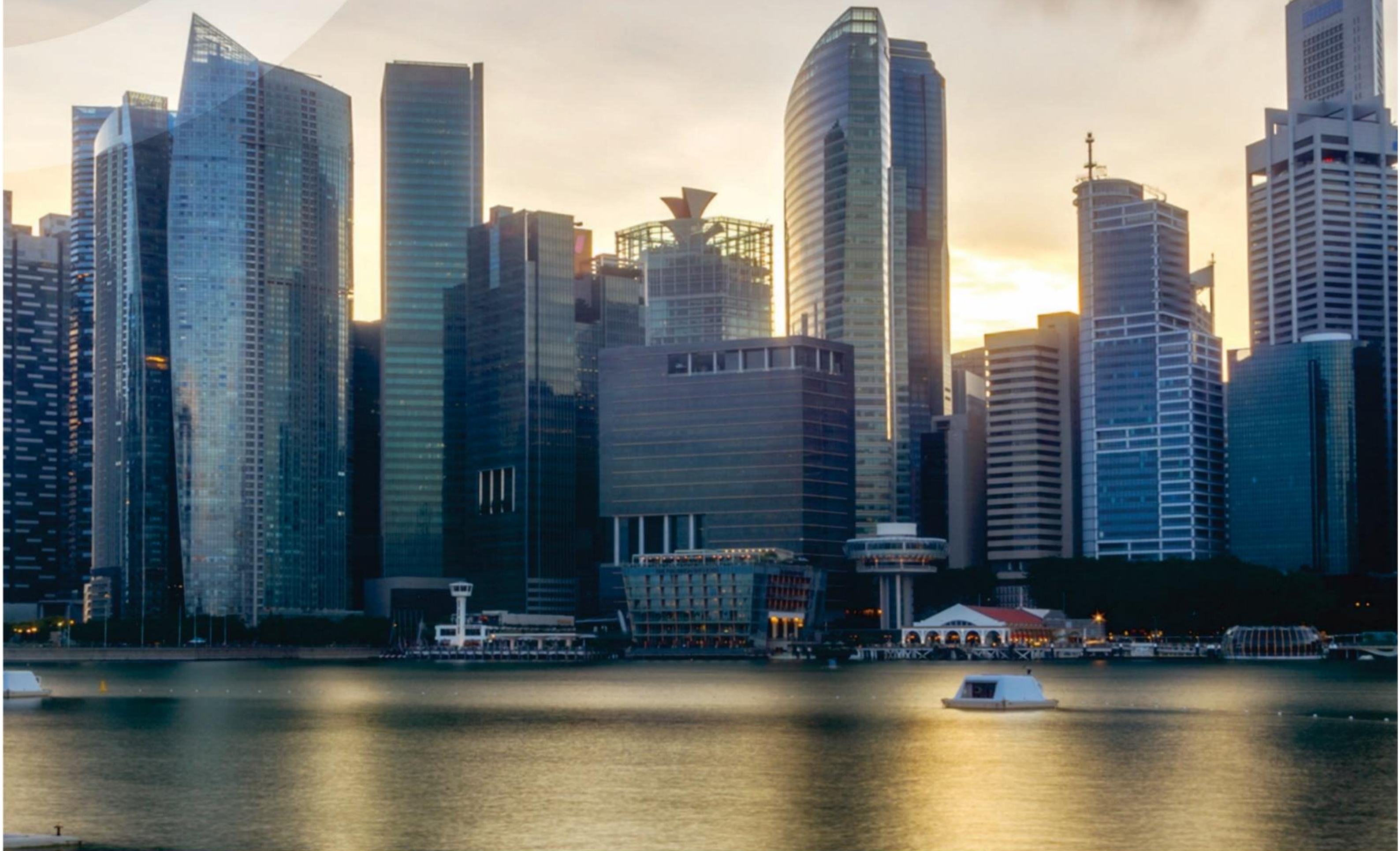

FMDQ

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NEW STORIES

FMDQ Targets SMEs; Establishes FMDQ Private Markets Limited

In order to bridge the funding gap and further improve the opportunities in the capital market ecosystem for different cadres of players, FMDQ Private Markets Limited (FMDQ Private Markets), a wholly owned subsidiary of FMDQ Holdings PLC (FMDQ or FMDQ Group), was established as an organised platform to promote inclusion of private companies in the capital markets. As a strategically positioned Company, providing the much-needed transparency in the market for private securities, by eliminating information asymmetry and ultimately, improving credibility in the market for private issuances, FMDQ Private Markets will focus on delivering value across a range of service offerings to private companies – small-, medium- and large- scale enterprises – thereby enabling the companies benefit from access to pools of debt and equity private capital, improved corporate governance, and enhanced visibility within an organised environment designed specifically to meet their needs.

FMDQ Private Markets will provide a medium for the disclosure of activities of private companies in the Nigerian debt and equity capital markets, serving as an information repository for the recording of these activities via a restricted access portal, the Private Companies' Securities Information and Distribution Portal.

More on FMDQ Private Markets can be found at - https://fmdqgroup.com/fmdqprivatemarkets/

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CBN, FMDQ Introduce Long-Dated OTC FX Futures Contracts for up to 5 Years …Hedging to support Foreign Capital – FPIs, FDIs and FCY Loans

The Central Bank of Nigeria (CBN) has yet again shown its commitment towards the development of the foreign exchange (FX) market and indeed, the Nigerian financial markets, as the apex bank, in collaboration with FMDQ Group yesterday introduced the much awaited long-dated FX Futures, extending the maximum contract tenor to up to five (5) years. This implies that forty-seven (47) new monthly OTC FX Futures contracts, in addition to the existing thirteen (13) contracts have been introduced from February 13, 2020, bringing the total number of open OTC FX Futures contracts at any point to sixty (60).

As the pioneer and sole seller of the Naira-settled OTC FX Futures contracts, the CBN, having successfully sold a total value of circa $34.83 billion so far on FMDQ Securities Exchange Limited (FMDQ Exchange), made history with the landmark achievement following the launch of the product in June 27, 2016, , to the relief of Nigerian corporates, foreign portfolio investors (FPIs), foreign direct investors (FDIs) and other investors, as the product served to minimise the disequilibrium in the Spot FX market and caused the exchange rate to moderate; attracting significant capital flows to the Nigerian fixed income and equity markets; and achieving exchange rate stability. With this product administered via the bespoke FMDQ FX Futures Trading & Reporting System, it is noteworthy that since the introduction of the product almost four (4) years ago, there has been no settlement default, with FX Futures contracts over the last 43 maturities, totalling circa $25.53 billion, successfully cleared and settled by FMDQ's wholly owned Clearing House, FMDQ Clear Limited (FMDQ Clear).

In the global financial system, hedging products are market enablers, allowing businesses and investors around the world to invest freely across borders, effectively hedge their risks and invariably contributing to economic growth. With the FX Futures contracts, the effective rate at which a counterparty will purchase (or sell) FX at any given time in the future is predetermined and fixed; essentially obligating the parties to the transaction which is consummated on FMDQ Exchange, to purchase or sell a currency (in this case, US Dollar) on a predetermined future date (the settlement date) for a fixed rate agreed on the date a contract is entered (trade date). No obligation exists for the physical delivery of the currency and at maturity, clearing and net settlement which is effected by FMDQ Clear, is made in Naira based on the US Dollar notional amount, and determined by the difference between the agreed rate (on trade date) and the rate on maturity (on settlement date) as determined by FMDQ's FX reference rate – the Nigerian Autonomous Foreign Exchange Fixing – NAFEX.

For more on the introduction of the 60 monthly contracts and to see all Open Contracts, click **here.**

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Financial Center for Sustainability Lagos, Kicks-off Green Tagging Project

The Financial Centre for Sustainability, Lagos (a member of the International Network of Financial Centre for Sustainability), established as part of efforts to accelerate the expansion of sustainable finance in Nigeria through the collaborative partnership of FMDQ Group and other key stakeholders in the Nigerian financial market, organised the Green Tagging Project Kick-Off Ceremony (the Kick-Off Ceremony or the Event) on Friday, February 27, 2020, at FMDQ's business complex, Exchange Place.

Through the UN Environment's Inquiry into the Design of a Sustainable Financial System, the UN Environment has established several programmes under its umbrella framework of activities, one of which is the Green Tagging Project (the Project) which involves six (6) countries namely: (China, Kazakhstan, Nigeria, India, Mexico and Mongolia) selected based on their openness and ability to advance ambitious national sustainable finance initiatives. Of the six (6) countries selected, Nigeria ranks amongst those that have pre-existing (documented) Roadmaps. The Nigerian Sustainable Finance Roadmap highlights major barriers such as market failures, information asymmetries, lack of awareness, amongst others, as well as several high potential areas with an estimated $92.00 billion sustainable investment opportunity.

The Green Tagging Project seeks to leverage the work carried out through the development of the Nigerian Sustainable Finance Roadmap to design a reporting framework under which all financial institutions can report in a homogenous manner their financing of projects and a monitoring/reporting mechanism that can serve as a transparency tool required to inform regulators. The event featured a Keynote Address by Mr. Marcos Mancini, Head of International Cooperation, United Nations Environment Programme (UNEP) on "Developing a sustainable financial system, which meets the needs of a low- carbon, resilient, inclusive green economy in Nigeria," alongside presentations by the three (3) participating banks.

Also in attendance at the event was Ms. Justine Leigh- Bell, Deputy CEO/Director of Market Development, CBI, Mr. Bankole Oloruntoba, CEO, Nigeria Climate Innovation Centre, Dr. Andrew Nevin, Partner & Chief Economist, PricewaterhouseCoopers, Dr. Momodu Omamegbe, Head, Strategy, Securities and Exchange Commission of Nigeria, Mrs. Kemi Awodein, Managing Director, Investment Banking, Chapel Hill Denham and Mr. Chidi Mike-Eneh, Head, Credit Risk, Infrastructure Credit Guarantee Company Limited as well as other market stakeholders.

Speaking at the event, Mr. Marcos Mancini, highlighted that, as has been noted by financial regulators through international platforms like the Network to Green the Financial System (NGFS), the Sustainable Insurance Forum (SIF) and others, climate change can affect financial system stability. We, therefore, welcome this opportunity to continue working closely with FC4S Lagos to better understand the composition of green and brown assets in banking credit portfolios and design strategies to catalyse sustainable finance in order to commence charting the path to improve climate related prudential banking ratios.

According to Dr. Doyin Salami, Vice Chairman, Financial Centre for Sustainability, Lagos, the Green Tagging Project, an initiative of the United Nations Environment Programme Inquiry, is quite commendable and is expected to transform the way banks who are the lubricators of the engine of growth in any economy, think and support projects that assist in maintaining a healthy, low-carbon, resilient and sustainable business environment and economy.

The Green Tagging Project kick-off ceremony was sponsored by FMDQ and Financial Sector Deepening (FSD) Africa, Kenya (a UK Aid initiative) focused on encouraging the critical players within the Nigerian financial markets, being primarily the banking institutions to support climate-friendly developmental activities through the decarbonisation of their loan portfolios. Climate Bonds Initiative (CBI), UK (technical partners to the Project) over the next six (6) months, will provide technical assistance to enable the participating banks identify, tag, track the performance of green assets and migrate them to the capital markets, if required. Participating banks in this pilot phase cut across the three categories of banks in the Nigerian financial system - *international* (Stanbic IBTC Bank PLC), *national* (Sterling Bank PLC) and *regional* (Wema Bank PLC).

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The 44th FX Futures Contract Matures on FMDQ

On Wednesday February 26, 2020, the 44th OTC FX Futures contract - NGUS FEB 26 2020 with a nominal value of $ 2,032.79 million, matured and settled on FMDQ Exchange. This maturity brings the total value of matured currency futures contracts on the Exchange, to circa $27.56 billion; with a total of about $37.71 billion so far traded on the Exchange.

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

The Central Bank of Nigeria (CBN) in line with its commitment to make available for sale at any given time, sixty (60) monthly contracts, introduced a new contract, NGUS FEB 26 2025 for $1.00 billion at $/₦380.00 to replace the matured contract.

The apex bank refreshes its quotes on the existing 1 to 60-month contracts, and these contracts quotes are published daily on the derivatives page of FMDQ Exchange's website at www.fmdqgroup.com/fmdq-exchange and on the FMDQ Twitter page, @FMDQGroup.

Click here to see all Open Contracts.

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At a Glance: Update from FMDQ Clear

For the month in view, FMDQ Clear, set to become the Central Counterparty for the Nigerian financial market continued to deliver on its commitment to upgrade the markets in line with its mandate to propel efficiency through its risk management, clearing and settlement activities. The benefits of a Clearing House and indeed, a Central Counterparty such as FMDQ Clear for the markets' and its diverse stakeholders have contined to be evident in the results delivered and integrity restored to the markets by its operations even as the Clearing House expands its operations to deliver even greater value for the Nigerian financial market.

The tables below provide an overview of the clearing and settlement activities cutting across the derivatives (currency futures) and fixed income markets.

Table 1: Clearing and Settlement Activities in the Currency Futures Market

S/N	Currency Futures	January
1	No. of Traded & Cleared Contracts	3,507
2	Value of Traded & Cleared Contracts **($'bn)**	35.31
3	Value of Open Contracts (as at Dec. 31) **($'bn)**	9.78
4	No. of Matured & Settled Contracts	2,854
5	Value of Matured & Settled Contracts **($'bn)**	25.53

Table 2: Clearing and Settlement Activities in the Sovereign Fixed Income Market

S/N	Sovereign Fixed Income	January
1	Total Value of Trades Processed **(₦'bn)**	6,390.89
2	Value of Trades Settled **(₦'bn)**	6,215.07
3	Value of Unsettled Trades **(₦'bn)**	175.82

Table 3: Clearing and Settlement Activities in the Non-Sovereign Fixed Income Market

S/N	Non-Sovereign Fixed Income	January
1	Total Value of Trades Processed **(₦'bn)**	2.83
2	Value of Trades Settled **(₦'bn)**	0.33
3	Value of Unsettled Trades **(₦'bn)**	2.50

For more on FMDQ Clear, please click here

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At a Glance: Update from FMDQ Depository

As a crucial function of the financial market infrastructure value chain, FMDQ Depository strives for excellence as the Depository continues to actively excellent and unrivalled settlement, asset servicing and information repository services, amongst others, to its members and the Nigerian financial market in general.

As the choice depository for the Nigerian financial market, FMDQ Depository, within the month in view, was appointed the depository to

1. Citibank Nigeria Limited ₦2.50 billion Series 1 and ₦2.50 billion Series 2 Commercial Papers under its ₦36.00 billion Commercial Paper Programme
2. The Eterna PLC ₦3.00 billion Series 2 Commercial Paper under its ₦10.00 billion Commercial Paper Issuance Programme

As in the previous month, the successful onboarding of these securities onto the FMDQ Depository platform positively reinforces the agenda and commitment of FMDQ Group to offer innovative and seamless services towards making the Nigerian financial markets GOLD – Globally Competitive, Operationally excellent, Liquid and Diverse.

For more on FMDQ Depository, please click here

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Highlight of Debt Securities Listed and Quoted on FMDQ Exchange

FMDQ Exchange continues to avail its credible and efficient platform as well as tailor its Listings, Quotations and Noting services to suit the needs of issuers. With the growing interest of corporate entities in the commercial paper (CP) market to finance their short-term funding needs, the Exchange has, following the due diligence of the responsible Board Committee approved the registration and quotation of the following securities on the Exchange:

- The Stanbic IBTC Bank PLC $33,000,000.00 Series 52 and $43,520,000.00 Series 53 Commercial Papers under its ₦100,000,000,000.00 Multi-currency Commercial Paper Programme
- The Union Bank of Nigeria PLC ₦8,894,933,000.00 Series 3 and ₦17,390,028,000.00 Series 4 Commercial Papers
- The Mixta Real Estate PLC ₦2,000,675,000.00 Series 15 Commercial Paper
- The FSDH Merchant Bank Limited ₦23,600,000,000.00 Series 1 Commercial Paper under its ₦30,000,000,000.00 Commercial Paper Programme
- The Citibank Nigeria Limited ₦2,500,000,000.00 Series 1 and ₦2,500,000,000.00 Series 2 Commercial Papers under its ₦36,000,000,000.00 Commercial Paper Programme

Also, within the period in view, FMDQ Exchange successfully admitted the Chapel Hill Denham Nigeria Infrastructure Debt Fund Series 5, 150,000,000.00 Units of ₦100 each at ₦108.45 under its ₦200.00 billion Issuance Programme.

By listing and quoting these securities on FMDQ, these issuers are availed benefits which include, but are not limited to, enhanced investor confidence in the issuer, transparent/relevant information disclosure on the issue, effective price formation and global visibility.

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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 OTC Market Turnover (January 2020)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	4,792,760	13,190
Foreign Exchange Derivatives	4,057,899	11,168
Treasury Bills	7,136,440	19,640
FGN Bonds	2,911,598	8,013
Other Bonds*	-	-
Eurobonds	7,923	22
Repurchase Agreements/Buy-Backs	4,136,475	11,384
Unsecured Placements/Takings	101,537	279
Money Market Derivatives	49,238	136
Commercial Papers	-	-
Total	**23,193,871**	**63,832**

No. of Business Days	24	24
Average Daily Turnover	**966,411**	**2,660**

Average YTD $/₦ @ 363.36
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 @ February 7, 2020; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January 2020 period amounted to ₦23.19 trillion. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 38.16% of the market. Treasury Bills transactions accounted for 30.77% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 17.83%, and Bonds, Unsecured Placements & Takings and Money Market Derivatives representing 12.59%, 0.44% and 0.21% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January 2020)

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

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

The top ten (10) Dealing Member (Banks) accounted for 76.57% (₦17.76 trillion) of the overall turnover in the market, with the top three (3) accounting for 52.35% (₦9.30 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC occupied the 1st and 2nd positions respectively, while United Bank for Africa PLC obtained the 3rd position in the value traded for the review period.

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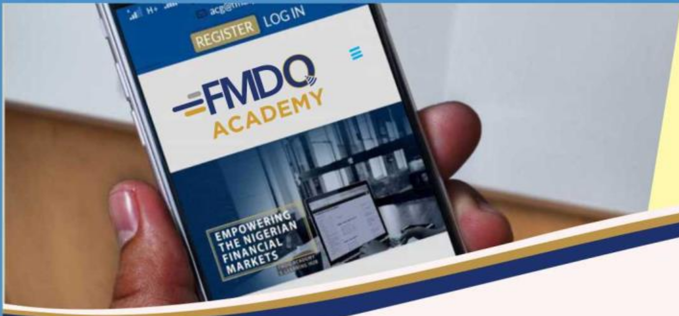

Exchange-Traded Derivatives

Introduction

Exchange-traded derivatives (ETDs) are standardised contracts traded on the exchange and backed by the clearing house. Due to its presence on a trading exchange, ETDs differ from OTC derivatives in terms of their standardised nature, higher liquidity, and ability to be traded on the secondary market. In ETDs Markets, the exchange acts, or appoints a clearing house such as FMDQ Clear to act, as an intermediary and guarantor to all transactions, using pooled initial margin from both sides of the trade. ETDs reduces counterparty risk in contrast to OTC derivatives where one party depends on the other party to fulfil its obligation.

Features of ETDs

1. Standardisation: ETDs have their terms precisely specified by the exchange and there is very limited ability to alter those terms by trading parties and investors. Specified terms such as magnitude and expiration date of the contracts make it easy for the investor to determine which contracts can be bought or sold and the amount of such contracts that matches its requirements most closely

2. Management of credit risk: The counterparty credit risk of an ETD is managed through a combination of two processes: novation and margining. The exchange itself, or its appointed clearing house, acts as the counterparty for each transaction involving an ETD, effectively becoming the seller for every buyer, and the buyer for every seller; a process known as novation. The clearing house is able to provide this credit guarantee by requiring a good-faith deposit (known as initial margin) to take position in an ETD. The initial margin deposited is a form of performance bond which can be increased/eroded by gains/losses on every derivative contract daily. Daily gains and losses are determined by marking the investor's position to market while the sufficiency of margin is determined via the process of margining

3. Transparency: Exchange markets are generally transparent with full information on all transactions disclosed to the exchange and regulatory bodies when required. The exchange also continually provides updated information about prices and volumes of contracts traded

4. Liquidity: The standardisation of contract terms makes it easy for the investor to determine the availability and magnitude of contracts that can be bought or sold, thereby facilitating the creation of a more liquid market for derivatives

Types of ETDs

While there are four (4) basic types of derivatives: Forward, Futures, Swaps and Options. Futures and Options are generally traded on securities exchanges more than Forwards and Swaps which are generally traded over-the-counter.

Futures and Forwards are very similar in their features with their only differences emanating from the standardisation and risk management features of Futures over Forwards. These differences are responsible for the mode in which both are traded, with the standardised nature of Futures being suited to listing and trading on organised securities exchanges while the bespoke nature of Forwards favour OTC trading. Similarly, Swaps, are essentially series of Forward contracts, making them also trade more in OTC markets than on securities exchanges.

Futures Contract

A Futures contract is a standardised derivative contract created and traded on a Futures Exchange such as FMDQ Exchange, wherein two parties agree that one party, the buyer, will purchase an underlying security from the other party, the seller, at a later date and at a price agreed on by the two parties when the contract is initiated; and in which there is a daily settling of gains and losses and a credit guarantee by the Futures Exchange through its appointed clearing house.

Some of the common types of Futures contracts (which are typically differentiated by the underlying security) include: Fixed Income and Interest Rate Futures, Single Stock Futures, Index Futures, Commodity Futures, and Currency Futures.

Options Contract

Unlike Futures contracts which creates an obligation on the buyer, Options contracts give a buyer the right and not an obligation to buy/sell or exchange cash flows based on the underlying.

For an Options contract, the buyer pays a sum of money (usually referred to as the option premium) to the other party (the seller or writer), for the right to either buy/sell or exchange cash flows based on an underlying asset at a fixed price (also known as the strike price) either on a specific expiration date or at any time prior to the expiration date. Option contracts are of two (2) main types depending on whether the buyer has the right to buy or sell the underlying. An option contract where the buyer has a right to buy the underlying is referred to as a Call or Call Option, while an option contract where the buyer has the right to sell is referred to as a Put or Put Option.

Some of the common Options contracts (which are typically differentiated by the underlying security) include: Fixed Income and Interest Rate Options, Index Options, Equity Options, Currency Options and Options on other derivatives such as Futures and Swaps.

Conclusion

While Futures and Options are traditionally considered the two (2) main types of ETDs, it must be noted that regulatory developments across the world following the 2008/2009 global financial crisis, as well as sophistication in the financial markets, is driving the expansion of what is listed and traded on exchanges. Consequently, more and more exchanges have expanded their derivatives product suite to include Swaps.

In addition to being used for hedging risks, ETDs have become more popular amongst retail investors as an investment product due to their standardised features and leverage, thereby promoting the depth and liquidity in global financial markets.

In Nigeria, FMDQ Exchange is championing the course for a well-functioning derivatives market. In addition to attaining the status of Africa's first vertically integrated financial market infrastructure group by virtue of its value-chain subsidiaries – FMDQ Clear and FMDQ Depository – which collectively provide end-to-end services from execution to clearing and settlement of securities in the Nigerian financial market, FMDQ has begun taking active steps to launch a thriving derivatives market in Nigeria, including the launch of the FX Futures product as a crucial measure towards deepening the sophistication and diversity of the Nigerian financial market.

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