



FMDQ SPOTLIGHT

NEWSLETTER EDITION 67 – MAY 2020



FMDQ

The logo features the letters 'FMDQ' in a bold, blue, sans-serif font. To the left of the 'F' are three horizontal bars of varying lengths, colored grey, blue, and yellow from top to bottom. The letter 'Q' has a stylized tail consisting of three curved lines in white and blue.



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FMDQ Sustains Business Operations Amidst COVID-19 Pandemic

...Adopts Phased-Approach to Reopening of Exchange Place

Despite the economic headwinds which has met the global economies, and to which the Nigerian economy and financial market is not immune to, FMDQ Group has continued to engage the market participants as well as take steps through its subsidiaries – FMDQ Securities Exchange Limited (FMDQ Exchange or the Exchange), FMDQ Clear Limited (FMDQ Clear), FMDQ Depository Limited (FMDQ Depository or the Depository), and FMDQ Private Markets Limited (FMDQ Private Markets) – to sustain the resilience and transparency of the Nigerian capital markets even as the effect of the pandemic continues to loom.

FMDQ Exchange, in its role as a market organiser in the Nigerian financial market, and FMDQ Clear, the Clearing Franchise of the financial market infrastructure Group positioned to become a Central Counterparty in the near to medium term, held a joint stakeholder session with Members of their respective franchises during the lockdown to deliberate on the effectiveness of their Business Continuity Plans vis-à-vis their response strategies, establishing the continued readiness of all parties to maintain an active market during the lockdown. The FMDQ markets which were built on a tech-driven foundation, remained up and running with all trading, reporting and surveillance activities effected via the FMDQ Systems, and the attendant clearing and settlement activities, via FMDQ Clear and FMDQ Depository, respectively. In same vein, the Exchange approved the extension of the deadline for the submission of the Quarterly Compliance Reports for the first quarter of 2020 till Friday, May 15, 2020. These Reports are submitted by FMDQ Exchange’s Registration Members (Listings and Quotations) for sponsored securities currently listed and/or quoted on the Exchange as one of the means through which the Exchange promotes transparency in the fixed income market. The extension granted was to provide some relief to the Exchange’s Members whose reporting obligations to the Exchange may have been affected by the disruptions caused by the COVID-19 crisis.

Furthermore, issuers and issuing houses/sponsors of debt securities on FMDQ Exchange have continued to find respite in FMDQ, as the Exchange’s Securities Admission Service remains uninterrupted, since the commencement of the remote working arrangement at Exchange Place which took effect from March 26, 2020. Consequently, FMDQ Exchange admitted the listing and quotation of several debt securities including the Flour Mills of Nigeria PLC ₦20.00 billion fixed rate senior unsecured bonds, 162.72 million Units of the Chapel Hill Denham Nigeria Infrastructure Debt Fund, as well as the ₦6.96 billion Coronation Merchant Bank Limited, ₦15.00 billion Sterling Bank PLC and the ₦5.32 billion United Capital PLC commercial paper (CP) notes on its platform. As a tech-driven

platform, the Exchange guarantees the availability of its efficient and reliable services for the transfer of value and management of risks by issuers, investors and others seeking to raise funds from the capital market to support their businesses during this time and beyond.

Furthermore, FMDQ Depository, having recently won the sole mandate for the ₦100.00 billion Lagos State Government bonds, as well as the joint mandate for the ₦100.00 billion Dangote Cement PLC bonds, held a webinar for its stakeholders on Thursday, April 30, 2020, to discuss the post-trade market structure as well as the effectiveness of response strategies to its business operations. The well-attended webinar provided an interactive and much-required avenue for the Depository's stakeholders to deliberate on their operational modalities and business activities in view of the challenges posed by the COVID-19 pandemic. More on this is discussed in subsequent section.

According to the Chief Executive Officer of FMDQ Group, Mr. Bola Onadele. Koko, "FMDQ has embraced active engagement with its stakeholders even as we all continue to navigate the current realities. Our trading, clearing and settlement systems as well as the data and information portals have maintained uptimes whilst being securely available to all Members and end users. We have seen commendable support from our Members, regulators, and other stakeholders as we collectively strive to uphold the integrity and resilience of the Nigerian financial market. We shall continue to assess the business environment as well as the evolving responses to the pandemic and take all necessary and responsible action towards supporting the government's efforts and providing the requisite infrastructure for the markets to thrive. We appreciate the continuous support of all our stakeholders during this difficult time and urge everyone to keep playing their part to curb the pandemic."

As the Group strives to sustain the activities in the markets, providing timely and efficient services, conscious efforts were also made to sensitise all stakeholders and the public at large through the Group's social media campaigns, of the need for everyone to take responsibility and act accordingly during these times. In addition to this, FMDQ also availed its unique and exciting e-learning platform provided via the FMDQ Academy, to support continuous learning and capacity building, offering courses in fixed income, currencies, and derivatives markets.

As the government continues with the phased easing of the lockdown, FMDQ Group, has continued to prioritise the health and well-being of its employees. Accordingly, the Group implemented a three (3) phased approach to the reopening of its business complex, Exchange Place; with Exchange Place remaining closed to all visitors through the month of May, and all employees continuing to work remotely in the initial phase. Subsequent phases shall see the reopening of Exchange Place with essential employees returning to the office and with all necessary arrangements reinstated upon access to the office to help curb the spread of the pandemic.

Over \$45.00 Billion Contracts Traded on FMDQ Exchange as 47th FX Futures Contract Matures

The 47th FX Futures contract – NGUS MAY 27 2020 – with a nominal value of \$2,507.05 million, matured and settled on FMDQ Exchange On Wednesday May 27, 2020. This maturity brings the total value of matured Futures Contracts on the Exchange, since the inception of the market in June 2016, to circa \$32.86 billion; with a total of about \$45.81 billion so far traded.

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), as observed over the last forty-six (46) maturities, introduced a new contract, NGUS MAY 28 2025 for \$1.00 billion at \$/₦569.14 to replace the matured contract. The contracts quotes are published daily on FMDQ's website at www.fmdqgroup.com and on the FMDQ Twitter page, [@FMDQGroup](https://twitter.com/FMDQGroup). Intending investors should contact an Authorised Dealer (Bank) to deal.

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At a Glance: Update from FMDQ Clear

As part of its pursuit to deliver highly efficient post-trade services across Nigeria's fixed income and derivatives markets, addressing some of the key drivers for the sustained development of the markets, FMDQ Clear continued to provide the necessary architecture for these markets despite the COVID-19 crisis, clearing and managing risks in record time and contributing its quota as a critical value-chain in the post-trade services spectrum.

The tables below provide an overview of the clearing and settlement activities for March and April 2020, for the derivatives (currency futures) and fixed income markets.

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

S/N	Currency Futures (as at Apr. 30, 2020)	March	April	Change (%)
Clearing				
1	No. of Traded & Cleared Contracts	4,434	4,651	4.89
2	Value of Traded & Cleared Contracts (\$'bn)	43.36	45.35	4.59
3	Value of Open Contracts (as at Apr. 30, 2020) (\$'bn)	14.52	14.99	3.24
Settlement				
4	No. of Matured & Settled Contracts	3,093	3,233	4.53
5	Value of Matured & Settled Contracts (\$'bn)	28.84	30.35	5.24

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

S/N	Sovereign Fixed Income	March	April	Change (%)
1	Total Value of Trades Processed (₦'bn)	8,352.07	5,021.83	(39.87)
2	Value of Trades Settled (₦'bn)	7,925.81	4,896.19	(38.22)
3	Value of Unsettled Trades (₦'bn)	426.27	125.63	(70.53)

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

S/N	Non-Sovereign Fixed Income	March	April	Change (%)
1	Total Value of Trades Processed (₦'bn)	15.82	0.33	(97.91)
2	Value of Trades Settled (₦'bn)	12.13	0.33	(97.28)
3	Value of Unsettled Trades (₦'bn)	3.69	0.00	(100)

For more on FMDQ Clear, please click [here](#)

At a Glance: Update from FMDQ Depository

FMDQ Depository continues to deliver on its operational mandate through the support of market stakeholders, to implement value-added products and service offerings, for the Nigerian capital market.

For the month in view, the Depository successfully onboarded onto its platform the following debt securities listed/quoted on FMDQ Exchange. They include the

1. ₦10.00 billion Series 1 & ₦10.00 billion Series 2 United Capital PLC Bond under its ₦30.00 billion Bond Issuance Programme
2. ₦10.00 billion Series 13 & ₦20.00 billion Series 14 Flour Mills of Nigeria PLC Commercial Paper under its ₦100.00 billion CP Issuance Programme

As the Depository of Choice for the Nigerian market participants, FMDQ Depository completes the value chain of pertinent market infrastructure for the pre-trade, trade and post-trade spectrums provided by FMDQ Group. From improved market making opportunities to secondary market liquidity, the Depository avails a unique leverage for investors to enjoy seamless and cost-efficient processes via its linkage to other FMDQ subsidiaries.

For more on how FMDQ Depository can serve you, please click [here](#)

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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 – 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 2020)

Product Category	(N'mm)	(\$'mm)
Foreign Exchange	17,323,205	47,093
Foreign Exchange Derivatives	16,529,307	44,633
Treasury Bills	30,607,107	82,445
FGN Bonds	9,510,973	25,756
Other Bonds*	1,103	3
Eurobonds	151,442	405
Repurchase Agreements/Buy-Backs	14,245,322	38,468
Unsecured Placements/Takings	607,727	1,649
Money Market Derivatives	50,244	138
Commercial Papers	-	-
Total	89,026,429	240,591
No. of Business Days	86	86
Average Daily Turnover	1,035,191	2,798

Average YTD \$/N @ 371.25

mm – million

*Other Bonds include Agency, Sub-national, Corporate, Supranational Bonds & Promissory Notes

Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)

Source: FMDQ Data Portal as @ May 6, 2020; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January – April 2020 period amounted to ₦89.03 trillion. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 38.03% of the market. Treasury Bills transactions accounted for 34.38% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 16.00%, and Bonds, Unsecured Placements & Takings and Money Market Derivatives representing 10.85%, 0.68% and 0.06% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - April 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	FIRST BANK OF NIGERIA LIMITED
6	ZENITH BANK PLC
7	CORONATION MERCHANT BANK LIMITED
8	ECOBANK NIGERIA LIMITED
9	CITIBANK NIGERIA LIMITED
10	FIRST CITY MONUMENT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 78.99% (₦70.32 trillion) of the overall turnover in the market, with the top three (3) accounting for 60.85% (₦42.79 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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UPCOMING EVENTS

FMDQ to Host Green Bond Capacity Building Session for Stakeholders in the Nigerian Agricultural Sector

The implementation parties under the Nigerian Green Bond Market Development Programme (the Programme) – FMDQ, Climate Bonds Initiative (CBI) and Financial Sector Deepening (FSD) Africa – are set to engage relevant stakeholders, and in particular, potential issuers in the agribusiness sector via a webinar on **Thursday, June 11, 2020**, to demystify the concept of green financing as well as highlight the opportunities for issuance of green bonds to boost activities in this very important sector in Nigeria.

From providing guidance to structuring and reporting requirements, the targeted session shall seek to offer support and technical capacity to these stakeholders to enable them effectively tap into these opportunities.

More information on the webinar session would be communicated to stakeholders. Should you wish to book a space, please send an email to edd@fmdqgroup.com

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FMDQ Exchange Set to Engage Derivatives Market Stakeholders on Risk Management Opportunities Amidst the Market Volatilities

The global financial market and indeed, its Nigerian counterpart have continued to take the hit of the negative impact caused by the COVID-19 crisis. As businesses and governments strive to keep up their activities as well as plan their operations with the continued easing of the lockdown, the need to effectively manage their FX exposures to protect their capital and hedge against movements in the FX rates cannot be overemphasised.

To empower its stakeholders, including corporates, investors, governments etc. to leverage these opportunities and more, FMDQ Exchange through its Derivatives Business Group will organise a webinar session focused on providing a holistic understanding of the derivatives market in Nigeria and the hedging opportunities inherent amidst the volatilities in the FX market, for corporate treasurers, fund/asset managers, high-net worth individuals and more, on **Wednesday, June 17, 2020**.

More information on the webinar session would be communicated to stakeholders. Should you wish to book a space, please send an email to dbg@fmdqgroup.com

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Understanding the Repurchase Agreements Market – Part 2

In the April 2020 edition of FMDQ Spotlight, the concept of the Repurchase Agreement (Repo) market was introduced and discussed. The Repo market has witnessed significant growth and development in terms of market participants and transaction volumes in recent years. This edition will focus on the types of Repo, its uses and benefits to market participants and the larger financial market ecosystem.

Types of Repo Transactions

Globally, there are various types of Repo transactions which involve the sale and repurchase of a financial asset as explained in the introductory article. These Repo transactions are primarily differentiated by the underlying security and the legal/contractual arrangements surrounding the transaction(s). The following are the common types of Repos across the global financial markets:

1. Classic Repos
2. Open Repos (Open Buy Back Agreements/Demand Repos)
3. Sell/Buy-Back Agreements
4. Tri-Party Repos
5. Securities Lending

Classic Repos: This is a type of Repo transaction that involves the temporary/initial sale of a security with a simultaneous agreement to repurchase the security later. In this scenario, the prices of the underlying security are the same on the start and end dates of the transaction, while a separate payment of interest earned on the security is made by the Repo Seller/Borrower. The securities exchanged in a Classic Repo are treated strictly as collaterals and the coupon income received during the life of the Repo is paid back to the Seller of the security. A Classic Repo is typically called a 'traditional Repo' and is usually supported by a legal arrangement documented as the Master Agreement

Open Repos: This is an open-ended Repo transaction with no fixed repurchase date. Open Repos run until one of the counterparties to the Repo transaction terminates the arrangement by giving due notice to the other counterparty. Interest on this type of Repo transaction is usually calculated daily but rolled over and paid monthly or, if the transaction is terminated before the month-end, on the repurchase date

Sell/Buy-Back Agreements: This is a type of Repo transaction in which each leg of the Repo forms a separate contract. It is the simultaneous spot sale and forward repurchase of a security, where

the forward price is set relative to the spot price to yield a market return. Unlike a traditional Repo transaction that requires a Master Agreement to be in place, a Sell/Buy-Back Repo Agreement does not require any special legal documentation. During the life of the Sell/Buy-Back Repo, coupons earned on securities are paid to the Buyer of the security by adjusting the cash paid at the termination of the contract

Tri-Party Repos: In a Tri-Party Repo, an independent party acts as the intermediary (typically a Central Counterparty) between the Repo Buyer and Seller. Consequently, custody and management of the associated collateral is outsourced to the intermediary/third-party during the term of the Repo transaction

Securities Lending: This type of Repo involves a counterparty borrowing a security to cover short positions that may arise when fulfilling market making obligations or trading in the financial market. That is, it is essentially a type of Repo where the primary objective is the sourcing of the security and not the cash

Uses of Repos

Repos are used in various ways by financial market participants. Some of these are highlighted below:

- **Short-term Borrowing:** Repos are used as a tool for funding short-term transactions by market participants. They provide the opportunity of accessing short-term funding using already possessed securities, without losing total ownership of the securities
- **Yield Enhancement:** Repos can be used to earn return on assets, by lending assets that are in high market demand in exchange for cheap cash. This can be used to fund a different transaction or re-invested to earn a profit
- **Safe Investment:** From a Buyer/Borrower's perspective, Repos are considered a safe investment. This is because in Repo transactions, the title of the collateral/security is transferred to the Buyer (unlike pledged collateral), which means that in the event of the Seller's insolvency, the collateral can be easily liquidated without any interference from an insolvency court. Hence, Repos reduce the credit risks of cash investors when compared to traditionally secured loan
- **Reduction in Collateralisation:** In addition to reducing credit risks associated with lending, Repos can also be used to reduce liquidity risk. Where a Repo Buyer is given liquid securities, unforeseen need for liquidity during the life of the Repo can be met by selling the securities to a third-party either through another Repo or an outright sale. In this kind of arrangement, it is key to note that the Repo Buyer will subsequently have to buy the collateral back to be able to return it to the Repo Seller or counterparty

Conclusion

Repos continue to present a globally accepted means of enhancing portfolio returns by allowing investors with significant amount of cash or securities at their disposal to invest, manage liquidity and extract further value from their assets. Repos have proven to be very useful instruments for financial market participants, by serving as means for secured lending (from the lender's perspective) and cheap financing (from the borrower's perspective). FMDQ Exchange, in its role as a market organiser, and having deployed robust technology as well as requisite market architecture, is set to unveil an upgrade to the Nigerian Repo market - with Collateral Management - to boost and enhance the activities of participants in this market and invariably, support the development of the Nigerian financial market and economy at large.

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