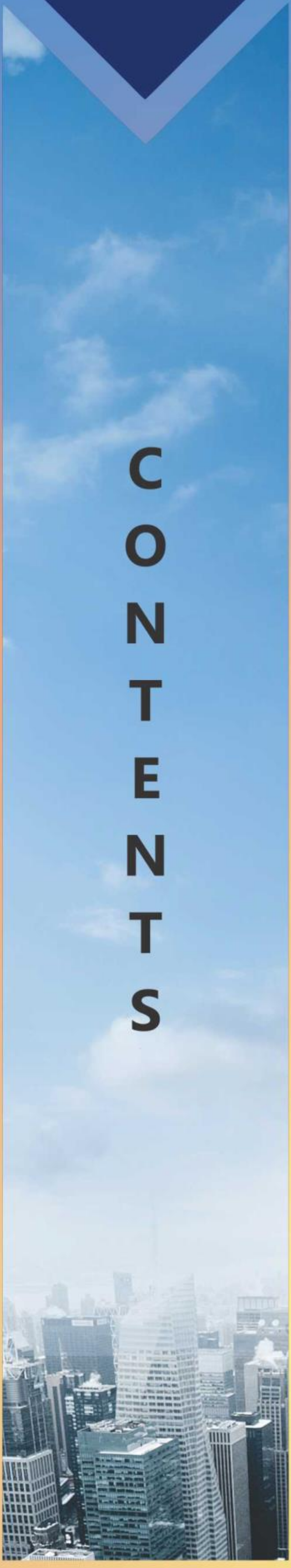
FMDQ SPOTLIGHT

NEWSLETTER EDITION 68 – JUNE 2020

FMDQ


FMDQ
.54 16-Aug-2019 Price:99.51 Yield:14.13 | 13.39 12-Jul-2019 Price:99.54 Yield:14.02 | 16.00 | Yield:14.02
10.25 | 18-Oct-2018 Disc:12.11 Yield:12.17 | 25-Oct-2018 Disc:12.22 Yield:12.31
OUR STRATEGIC ROLE IN THE ECOSYSTEM



CONTENTS

FMDQ Sustains Stakeholder Engagement Amidst COVID-19

…Holds Capacity Building Sessions on Green Financing Opportunities and Combating Currency Volatility

The current economic climate has seen governments and businesses rally around strategic policy toolkits to address the evolving impact of the COVID-19 pandemic. From exploring alternative financing opportunities to efficient planning and management of cashflows, FMDQ Holdings PLC (FMDQ Group or FMDQ) has continued to virtually collaborate with its diverse stakeholders, hosting engagement sessions and providing dependable and innovative capital market solutions to enable them find succor for their businesses and initiatives.

Within the month in view, the implementation parties to the Nigerian Green Bond Market Development Programme - FMDQ Group, Financial Sector Deepening (FSD) Africa and Climate Bonds Initiative – partnered to deliver a free capacity building webinar for current and potential issuers in the Nigerian agricultural sector. The session, themed, "Green Financing Opportunities for Agribusiness" held on Thursday, June 11, 2020, provided well-rounded discussions on green bonds and the components required for stakeholders in the agribusiness sector to attract green investments. Some of these include the green bonds certification process, framework, taxonomy for agricultural sector and reporting requirements. The conversations further revolved around the issuance process for green bonds, eligible projects for such bonds and available support under the Nigerian Green Bond Market Development Programme.

In the same vein, FMDQ's wholly owned subsidiary FMDQ Securities Exchange Limited (FMDQ Exchange) also delivered a market-impacting webinar to enlighten its diverse stakeholders of the importance of risk management tools in the Nigerian financial market, particularly in view of currency volatilities and other challenges posed by the economic instability in view of the COVID-19 pandemic. The session, themed, "Combating Currency Exchange Volatility through Risk Management Tools" held on Wednesday, June 17, 2020 and provided insights on the broad considerations for managing/hedging foreign exchange exposures in the Nigerian financial market as well as the highlighted the features and usefulness of the Naira-settled OTC FX Futures product as an efficient and reliable risk management product to hedge currency exposures.

Follow embedded link to watch the recordings of the Green Financing Webinar and Combating Currency Volatility Webinar.

Back to Top

CEO, FMDQ Group, Shares Insights on Capital Markets at the BusinessDay Digital Dialogue Session

As one of Nigeria's most reliable sources of actionable business and financial information, BusinessDay Media Limited (BusinessDay) in response to the COVID-19 pandemic outbreak, brought together senior global and local policy decision makers, thought leaders, and experts in business and industries for a two-day online dialogue. The session titled "A National Conversation: Mapping Nigeria's Response to COVID-19" was focused on sharing deep knowledge of how the current global economic crisis is evolving, how the disruption is shaking every foundation of economic prosperity laid over the last century, and to make sense of what the future holds for the Nigerian economy.

In support of FMDQ's agenda to make the Nigerian financial market globally competitive amongst others, FMDQ participated at the live webinar with the CEO, FMDQ Group, Mr. Bola Onadele. Koko, sharing valuable insights on the "Challenges, Opportunities and Outlook for the Nigerian Capital Markets in the Aftermath of COVID-19". Amongst other matters discussed during the fireside chat were, an update of the Nigerian financial markets' performance in view of the pandemic, the key areas of opportunity to leverage for Nigeria's capital market development, ensuring access to long term capital by key sectors identified to kickstart Nigeria's diversification agenda, how the Government's fiscal policy response to the pandemic can affect developments in the Nigerian capital market and what impact the Nigeria's current foreign exchange regime could have on long term domestic borrowing.

As the market organiser for the fixed income, foreign currency and derivatives market, this very impactful webinar provided an opportunity for FMDQ to discuss the success of its Business Continuity Plans and response strategies to the COVID-19 crisis as well as the Group's robust technology infrastructure which has effectively supported its uninterrupted service delivery for the markets within its purview.

Click here to watch the full video

Back to Top

FX Futures Market Records 48th Contract Maturity with Over $47 billion Contracts Traded So Far

On Wednesday June 24, 2020, the 48th FX Futures contract – NGUS JUN 24 2020 with a nominal value of $1,926.28 million, matured and settled on FMDQ Securities Exchange. This maturity brings the total value of matured currency futures contracts on the Exchange, since the inception of the market in June 2016, to circa $34.79 billion; with a total of about $47.33 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 Limited (FMDQ Clear).

The Central Bank of Nigeria (CBN), as observed over the last forty-seven (47) maturities, introduced a new contract, NGUS JUNE 25 2025 for $1.00 billion at $/₦579.37. The contracts quotes are published daily on FMDQ's website at www.fmdqgroup.com and on the FMDQ Twitter page, @FMDQGroup .

Back to Top

At a Glance: Update from FMDQ Clear

Despite the continued impact of the COVID-19 pandemic on the financial markets, and the considerably reduced secondary market activities, FMDQ Clear has maintained its resolve to deliver highly efficient post-trade services across Nigeria's fixed income and derivatives markets, addressing some of the key drivers for the development of the markets – risk mitigation, capital efficiency and price transparency.

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

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

S/N	Currency Futures (as at May 30, 2020)	April	May	Change (%)
Clearing				
1	No. of Traded & Cleared Contracts	4,651	4,763	2.41
2	Value of Traded & Cleared Contracts **($'bn)**	45.35	46.79	3.18
3	Value of Open Contracts (as at May 30, 2020) **($'bn)**	14.99	13.94	(7.00)
Settlement				
4	No. of Matured & Settled Contracts	3,233	3,423	5.88
5	Value of Matured & Settled Contracts **($'bn)**	30.35	32.86	8.27

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

S/N	Sovereign Fixed Income	April	May	Change (%)
1	Total Value of Trades Processed **(₦'bn)**	5,021.83	2,790.90	(44.42)
2	Value of Trades Settled **(₦'bn)**	4,896.19	2,729.59	(44.25)
3	Value of Unsettled Trades **(₦'bn)**	125.63	61.31	(51.20)

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

S/N	Non-Sovereign Fixed Income	April	May	Change (%)
1	Total Value of Trades Processed **(₦'bn)**	0.33	1.32	300
2	Value of Trades Settled **(₦'bn)**	0.33	1.16	252
3	Value of Unsettled Trades **(₦'bn)**	0.00	0.16	16

For more on FMDQ Clear, please click here

At a Glance: Update from FMDQ Depository

Leveraging on the active support and collaboration of its stakeholders across the Nigerian capital market value chain, FMDQ Depository Limited (FMDQ Depository) has continued to deliver on its mandate to provide excellent and unrivalled custody and settlement services for the market. asset servicing and information repository services, amongst others, to its members and the Nigerian financial market in general.

Within the period in view, FMDQ Depository, again proved to be a Depository of Choice for the Nigerian capital market with its appointment as the sole depository of the ₦100.00 billion MTN Communications Nigeria PLC Commercial Paper (CP) notes. This mandate comes on the back of the Depository's recent appointment as the sole and as a joint depository for the ₦100.00 billion Lagos State Government Bond and the ₦100.00 billion Dangote Cement PLC Bond, respectively, amongst others.

Assets lodged with FMDQ Depository are provided with credible asset servicing, reliable data, and information, as well as efficient value chain linkages guaranteed by FMDQ's vertically integrated structure (Exchange, Clearing & Depository), amongst other value-added services.

With the overarching objective of making the Nigerian financial market globally competitive, operationally excellent, liquid, and diverse, FMDQ Depository completes the value chain of pertinent market infrastructure for the post-trade spectrum provided by FMDQ Group.

For more on the service offerings of FMDQ Depository, please click here

Back to Top

FMDQ Admits ₦100 billion MTN Nigeria Commercial Papers and ₦100 billion Dangote Cement Bond, Providing Long-Awaited Corporate Benchmarks for Pricing and Valuation

In a historic move, despite the economic downturn and realities of the COVID-19 pandemic, Dangote Cement PLC (Dangote Cement) and MTN Nigeria Communications PLC (MTN Nigeria) have successfully tapped the market, raising the largest corporate bond and commercial papers, respectively, so far recorded in the Nigerian debt capital market. Indeed, FMDQ's wholly owned subsidiary, FMDQ Exchange, is privileged to have admitted for listing, the Dangote Cement PLC ₦100.00 billion Series 1 Bond (the Dangote Cement Bond) under its ₦300.00 billion Bond Programme, and for quotation, the MTN Nigeria Communications PLC ₦100.00 billion Series 1 & 2 CP notes (the MTN Nigeria CPs) under its ₦100.00 billion CP Issuance Programme, both on the Exchange's platform.

The admission of these securities on FMDQ validates the innovative and credible capital market solutions championed and efficiently delivered by FMDQ, over the last few years. Furthermore, in line with its mandate to facilitate global competitiveness of the Nigerian financial market, FMDQ, through these admissions, has provided the market and its diverse stakeholders – local and international – the much-needed corporate benchmark for the bond and commercial paper markets. These high-value issues will not only promote credible benchmark pricing and valuation in the DCM, but will foster investor confidence in the potential of the Nigerian capital market even at such a time as now, in view of the COVID-19 crisis. Indeed, the admission of these securities to FMDQ Depository, has again delivered power of choice to the investors on where to entrust their assets, validating the foresight of Lagos State Government in choosing FMDQ Depository for its bond earlier in the year.

Commenting on this milestone, the Chief Executive Officer of MTN Nigeria, Mr. Ferdinand Moolman, noted that the ₦100.00 billion MTN Nigeria CPs issued and quoted on FMDQ Securities Exchange represent the largest debut CP issuance by a Nigerian corporate. According to him, "this issuance will allow MTN Nigeria to broaden its sources of funding; combining its established lines of credit with access to capital market funding, which will lower the Company's overall cost of borrowing".

As the sponsor of the MTN Nigeria CPs on FMDQ Securities Exchange, the Chief Executive Officer of Chapel Hill Denham, Mr. Bolaji Balogun, added that "Chapel Hill Denham is proud to have acted as Sole Arranger to MTN Nigeria on its debut ₦100.00 billion CP issuance and programme. This landmark transaction for MTN Nigeria, was many times over-subscribed and priced tightly, indicative of the issuer's strong rating with investors. Chapel Hill Denham is pleased to have introduced an important new issuer into Nigeria's debt market, attracting participation from a diverse orbit of eligible individual and institutional investors".

Speaking on this great achievement, the Chief Executive Officer of FMDQ Group, Mr. Bola Onadele. Koko expressed his delight on the admission of these securities to FMDQ Exchange and FMDQ Depository, and the wider implication for the market. According to him, "the market has been yearning for corporate benchmarks for pricing and valuation of securities in the debt capital market, and coming at a time when the resilience of the Nigerian financial market is being tested by the impact of the COVID-19 pandemic is even more commendable. The success of these issuances by the premier and largest business conglomerate in Africa, Dangote Industries, through its subsidiary, Dangote Cement, and the debut made into the Nigerian DCM by leading telecommunications giant, MTN Nigeria, lay credence to the untapped and great potential of the Nigerian capital market to support sustainable development in Nigeria, and the confidence of investors, as well as the commitment of FMDQ Group to empower the markets to deliver prosperity to Nigeria and Nigerians".

With FMDQ Exchange providing an efficient and reliable platform for the registrations, listings, quotations, and trading of debt securities as well as reporting of data and information; FMDQ Clear ensuring adequate risk management and facilitating settlement finality; and FMDQ Depository providing a robust and secure securities depository for the Nigerian capital market, FMDQ Group has continued to provide the Nigerian financial market a one-stop platform, enabled by data & information and technology, for market participants to begin and end their market transactions seamlessly and cost-efficiently.

Back to Top

COVID-19 Realities: Corporates Look to the Capital Market as FMDQ Exchange Admits More Debt Securities to its Platform

The current business climate, marred by the impact of the coronavirus pandemic has seen most corporates and business entities look to the debt capital markets as a viable avenue to efficiently raise capital in order to meet their financing needs towards business expansion and/or working capital management, amongst others.

As the leading organiser for the Nigerian debt capital market (DCM), FMDQ Exchange, towards empowering the Nigerian financial market, provides a choice platform for the registrations, listings, quotations, and trading of debt securities. In this regard, the Exchange admitted the following to its platform:

- Listing of the **FBNQuest Merchant Bank Funding SPV PLC Series 1 ₦5.00 billion Fixed Rate Senior Unsecured Bond**

- Quotation of the **Coronation Merchant Bank Limited ₦6.00 billion Series 9 and ₦9.00 billion Series 10 CP notes under its ₦100.00 billion CP Issuance Programme**
- Quotation of the **Mixta Real Estate PLC ₦3.30 billion Series 20 - 23 CP notes under its ₦20.00 billion CP Issuance Programme**
- Registration of **the Guinness Nigeria PLC ₦10.00 billion CP Programme**, allowing the company raise funds from the market up to the limit approved within its registered CP Programme as at when the need arises. Issues from this CP Programme will also be quoted on FMDQ Exchange

These admissions to FMDQ Exchange's platform are yet again reflective of the potential of the Nigerian DCM and the commendable level of confidence demonstrated by both issuers and investors in the market. They also validate the efficient processes and integrated systems through which FMDQ and its wholly owned subsidiaries – FMDQ Exchange, FMDQ Clear, FMDQ Depository and FMDQ Private Markets Limited - has sustained its uninterrupted service delivery to the market and its diverse stakeholders during this difficult time and beyond. As is the corporate tradition for FMDQ Exchange, these securities shall be availed the benefits of the value-driven listings and quotations service on the Exchange, including global visibility through its website and systems, liquidity credible price formation and continuous information disclosure to protect investor interest, amongst others.

In keeping with its commitment to the development of the market, FMDQ Exchange shall sustain its efforts in supporting issuers with tailored financing options to enable them achieve their strategic objectives, deepen and effectively position the Nigerian DCM for growth, in support of the realisation of a globally competitive and vibrant economy. With a vision to become "the leading African builder of ecosystems of financial infrastructure and services for markets", and a mission to "collaborate to empower markets for economic progress towards delivering prosperity", FMDQ Group is unwavering in its pursuit of product and market innovation and as well as stakeholder engagement, towards making the Nigerian financial markets globally competitive, operationally excellent, liquid and diverse, in line with its "GOLD" Agenda.

Back to Top

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 - May 2020)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	18,393,069	49,864
Foreign Exchange Derivatives	18,396,836	49,469
Treasury Bills	33,908,337	90,994
FGN Bonds	10,798,551	29,090
Other Bonds*	1,103	3
Eurobonds	191,172	508
Repurchase Agreements/Buy-Backs	18,244,364	48,823
Unsecured Placements/Takings	825,964	2,214
Money Market Derivatives	50,244	138
Commercial Papers	-	-
Total	**100,809,640**	**271,104**
No. of Business Days	104	104
Average Daily Turnover	**969,323**	**2,607**

Average YTD $/₦ @ 374.23
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 @ June 5, 2020; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January – May 2020 period amounted to ₦100.81 trillion. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 36.49% of the market. Treasury Bills transactions accounted for 33.64% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 18.10%, and Bonds, Unsecured Placements & Takings and Money Market Derivatives representing 10.90%, 0.82% and 0.05% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - May 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	CITIBANK NIGERIA LIMITED
9	ECOBANK NIGERIA LIMITED
10	FIRST CITY MONUMENT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 79.02% (₦79.66 trillion) of the overall turnover in the market, with the top three (3) accounting for 60.86% (₦48.48 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC and Access Bank PLC maintained the 1st and 2nd positions respectively, while United Bank for Africa PLC retained the 3rd position in the value traded for the review period.

Back to Top

Implementing Repo Agreements in Emerging Markets

Introduction

As discussed in the April and May 2020 editions of the Spotlight Newsletter and summarised in brief, a Repurchase Agreement (Repo) is an agreement for the sale and future repurchase of a financial asset. The different types of Repos commonly used in the global financial markets include the Classic Repos, Open Repos, Sell/Buy-Back Agreements, Tri-Party Repos, Securities Lending, etc. Furthermore, Repos have proven to be very useful instruments for financial market participants, serving as a means for secured lending (*from the lender's perspective*) and cheap financing (*from the borrower's perspective*).

In this concluding part of the Repo series, discussions shall be around understanding Repo transactions and agreements in Emerging Market Economies (EMEs).

EMEs are markets or economies of developing nations that are becoming more engaged with global markets as they evolve. Repo transactions often make up a significant portion of fixed income markets in EMEs, supporting liquidity and efficiency in the spot fixed income markets. Akin to the developed economies, Repos are used by Central Banks of EMEs as instruments for the transmission of monetary policy, while also used by market participants to enhance investment/portfolio returns as well as provide required liquidity in the market. However, Repo Markets in EMEs are characterised by significant counterparty risk unlike in developed economies which have evolved into centralised trading and clearing of Repo transactions.

Regulation of Repo Markets in EMEs: A Case Study of the Nigerian Repo Market

Repo Markets in developed economies are largely regulated by the capital market regulator with clearly defined rules and guidelines. This is, however, not the case for most markets in the EMEs. Taking the Nigerian Repo market as a case study for EMEs, the market currently has no law explicitly recognising Repos as a security. However, since the Repo market is dominated by banks, the CBN has established guidelines and rules regulating the market. The CBN currently executes Repo transactions with banks under its Standing Lending, Standing Deposit and Term Repurchase Facilities (SLF, SDF and TRF respectively). SLF and SDF are both overnight transactions, while the TRF has a tenor of up to ninety (90) days. The Guidelines for the Conduct of Repurchase Transactions under the CBN's Standing Facilities Guidelines specify the terms and conditions for the operation of these Repos. Essentially, these facilities are executed by the CBN in its capacity as a lender of last resort to eligible institutions which are unable to access requisite liquidity in the inter-bank market.

To further enhance the development of the Nigerian Repo market, there is need for regulations promoting participation and centralised risk management. As in the developed economies/markets, this will require the collaboration of multiple regulators in the financial market ecosystem to establish a broad/industry-specific regulation governing the market.

Risk Management in Repo Markets of EMEs

The key risk facing transaction parties to a Repo is counterparty (i.e. default) risk arising from the potential failure of either counterparty to meet their obligations during the life and at maturity of the Repo transaction. Other risks inherent in a Repo transaction include liquidity[1] and collateral risks[2]. Unlike developed markets, where Tri-Party Repos are common or relevant regulation requires mandatory reporting, clearing and risk management of Repos, Repo markets in EMEs largely remain bilateral and opaque, with market participants taking on varying levels of counterparty risk. This often impacts participation levels, as well as volatility in benchmarks based on the Repo rates.

Effective collateral management typically provided centrally by Clearing Houses and Central Counterparties[3] (CCPs) through periodic valuation (*and collateral top-up*) is critical to the development of Repo markets in EMEs. In addition to minimising the liquidity and collateral risks faced by market participants by improving participation and liquidity in the spot fixed income markets, collateral management will also improve cash liquidity in the inter-bank market towards facilitating short-term (*working capital*) lending to the real sector of the economy.

Furthermore, centralised collateral management will help drive the standardisation of haircuts on securities underlying Repo transactions, which could potentially drive the expansion of securities acceptable as collateral in the Repo markets in EMEs. This is particularly important for non-sovereign fixed income securities (*such as corporate bonds*) which are typically less liquid than sovereign securities, as the increase in their use for Repo transactions impacts their liquidity in the spot fixed income markets. To improve risk management of Repos in EMEs, there is need for development of regulations mandating centralised clearing and collateral management of Repos, and the development of relevant legal frameworks promoting Repos and other securities lending transactions.

[1] Liquidity Risk – Liquidity risk occurs when an individual/institutional investor fails to meet its short-term debt obligations.
[2] Collateral Risk – This is the risk of loss in value of the collateral deposited by a counterparty arising from errors in the nature, quantity, pricing of the collateral.
[3] Central Counterparty (CPP) – A CCP is an entity that carries our two (2) primary functions in a Repo transaction – novation and clearing.

Legal Documentation of Repo Transactions in EMEs

The advent of Master Agreements - whereby all Repo transactions between two counterparties are governed by a single agreement (as opposed to one agreement per transaction basis) - has significantly led to the expansion of the Repo markets in EMEs. The legal framework for most Repo transactions traded internationally is the Global Master Repurchase Agreement (GMRA). Most EMEs have local variants of the GMRA, for example in Nigeria, the GMRA has been adapted and revised by market participants and the CBN to create the Nigeria Master Repurchase Agreement (NMRA).

Repo market participants in developed markets include banks, pension funds, large asset/portfolio managers, insurance companies, central banks, hedge funds, etc. While in EMEs, participants are mostly banks.

Conclusion

Repo Markets in EMEs continue to evolve and record significant development with increased regulatory oversight and standardisation of market practices *(such as centralised collateral management)* which is helping to reduce risks and boost participation by a broader group of market participants. The development of financial market infrastructures such as Clearing Houses/CCPs and Central Securities Depositories[4] (CSDs) also play a significant role in risk management of Repo transactions as well as help to moderate risk aversion of market participants.

With the lingering credit risk considerations in the Nigerian financial market, FMDQ Securities Exchange is at an advanced stage of activating a Repo market with a centralised collateral management system to help improve liquidity in the Repo and fixed income markets. Having identified the organisation and enhancement of the Repo market as crucial and beneficial to the efficient functioning of the money markets and the broader financial market in Nigeria, the Exchange will coordinate on-system trading of Repos while enhancing the market through the introduction of a centralised risk and collateral management service to minimise counterparty risk.

Back to Top

[4] Central Securities Depositories (CSDs) – A CSD is a specialist financial organisation holding securities either in certificated or uncertificated form so that ownership can be easily transferred through a book entry rather than the transfer of physical certificates.

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