



# ***FMDQ SPOTLIGHT***

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**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, blue, and yellow.



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## FMDQ Clear landmarks as Nigeria's Premier CCP

- **SEC grants Approval-in-Principle for CCP Registration**

The Nigerian financial markets recorded a ground-breaking and game changing milestone following the successful registration of FMDQ Clear Limited (FMDQ Clear) by the Securities and Exchange Commission (SEC or the Commission) on September 29, 2020, to become Nigeria's premier Central Counterparty (CCP). As a critical and much needed Financial Market Infrastructure (FMI), this laudable achievement re-defines the landscape for financial transactions as we know it and introduces endless possibilities to the scope of permissible products that can be developed and deployed within the ecosystem towards delivering long-lasting prosperity to the Nigerian economy.

The FMDQ Clear CCP ushers the actualisation of the outstanding building block that will enable the development of thriving repurchase agreements, derivatives, and commodities markets in Nigeria like other developed economies and markets. As a critical FMI, FMDQ Clear, as a CCP will interpose itself between two (2) counterparties by becoming the buyer to every seller and seller to every buyer, thereby aggregating and consolidating counterparty risks and introducing the much-desired counterparty agnostic trading feature that will catapult the growth of trading liquidity of financial products in the Nigerian markets to international standards. In addition, the CCP, with its robust risk management structures and financial resources, can manage the consolidated risks in an operational, cost- and capital-efficient manner that unlocks value for market participants within its value chain.

With the foresight of the SEC, having actively engaged with market participants for several years on the requisite regulations, robust and world-class "Rules on Central Counterparty" were published in December 2019, thereby setting the regulatory environment for the establishment of a CCP. However, the final piece on FMDQ Clear's aspiration of evolving into a full-fledged and sustainable CCP was then the legal basis to support its planned activities – netting and bankruptcy remoteness of financial market transactions. This required legislation, in another revolutionary event for the Nigerian markets, was addressed by the repeal and re-enactment of the Companies and Allied Matters Act, 1990 (CAP C20, LFN 2004) as Companies and Allied Matters Act 2020 (CAMA 2020) into law on August 7, 2020. Particularly, this new Act, which is positioned to set the Nigerian economy on the path of remarkable growth, made provisions for netting and bankruptcy remoteness. Indeed, these game changing provisions will cure critical legal deficiencies that hitherto affected the development of the financial markets, with the netting provisions addressing the credit risk challenges, operational and legal bottlenecks of gross settlement for spot and derivatives transactions, and the bankruptcy remoteness provisions tackling the uncertainty around the finality of settled transactions whilst securely ring-fencing collaterals placed in execution of financial contracts. It is noteworthy that FMDQ Clear, being the first Central Clearing House in Nigeria and having provided clearing services for the

Central Bank of Nigeria (CBN) Naira-Settled OTC FX Futures product from its inception with over US\$50.00bn worth of contracts executed, has acquired operational capabilities and experience that rival similar markets internationally, while adapting to local peculiarities. This attribute has uniquely positioned FMDQ Clear to take on the new responsibilities of a CCP effectively and efficiently well for the benefit of all market participants and in perfect alignment with the Nigerian financial market regulators' aspirations.

In many Emerging Markets, derivatives markets are small, while hedging costs are high, making it difficult for issuers/borrowers and investors/lenders to tailor their currency and other risk exposures to their needs. This, among others, account for the aspiration of the FMDQ Holdings PLC (FMDQ or FMDQ Group), through its wholly owned securities exchange, FMDQ Securities Exchange Limited (FMDQ Exchange), to introduce new and critical products into the Nigerian financial markets in the near-term, including exchange-traded derivatives, supported by a robust and resilient CCP, FMDQ Clear. Furthermore, as is best practice across the global financial markets and in line with the International Organisation of Securities Commissions' (IOSCO) recommendations for FMIs, it is crucial for a CCP to have sufficient and resilient financial resources to enable it to effectively deliver on its mandate. Consequently, FMDQ Clear has not only made adequate arrangements to enable it meet the regulatory capital requirements of ₦5.00bn set by the SEC for a CCP, but has proactively further developed and deployed a robust Default Resolution Reserve, bringing FMDQ Clear's total financial resources to c. ₦15.00bn with the ambition of doubling this in the medium-term. These financial resources set the tone for FMDQ Clear, as a CCP, to support the FMDQ Group's aspiration of building financial markets that are truly reflective of the position of the Nigerian economy in Africa and enable significant flows of transactions.

Leveraging on its aspirations to deepen the Nigerian financial markets, and transform them to be globally competitive, operationally excellent, liquid and diverse, in line with the FMDQ 'GOLD' Agenda, FMDQ Group has consistently pursued the development of requisite technical capacity and skills to support said aspirations. As FMDQ Clear primes for the activation of the FMDQ Exchange derivatives market and the revolutionising of the FMDQ Exchange spot markets in alignment with the strategic product development plan of the FMDQ Group, market participants are beginning to position themselves to take advantage of the 'emerging financial markets'. Four (4) CBN-licensed commercial banks have proactively formally registered their interest with FMDQ Clear in becoming Clearing Members of the CCP.

Bola Onadele. Koko, the Chief Executive Officer of FMDQ Group, expressed his delight at this milestone, saying, "By the Approval-in-Principle granted FMDQ Clear's registration as a CCP, the Commission has again, demonstrated its relentlessness and forward-thinking disposition towards the development of the Nigerian capital markets and the nation's economy. The evolution of FMDQ Clear to a CCP marks a critical and long-awaited milestone in the Nigerian financial market ecosystem, positioning the markets for revolutionary growth in potentially colossal proportions. FMDQ, as a group, is indeed appropriately placed to de-risk the Nigerian financial markets and thereby, in collaboration with market stakeholders, ensure the realisation of this enormous feat."

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## **Driving Sustainable Development through a Circular Economy - FC4S Lagos & PwC Nigeria Host Capacity Building Session for Manufacturing Sector**

According to the United Nations Environment Programme (UNEP) Inquiry, achieving the goal of economic growth and sustainable development requires a conscious reduction in ecological footprint, occasioned by the review of production and consumption activities - the efficient management of the shared natural resources, and the disposal method of toxic waste and pollutants.

To deepen capacity and drive continued value creation from the production through to the consumption value chain, the Financial Centre for Sustainability, Lagos (FC4SL), in collaboration with PricewaterhouseCoopers (PwC), Nigeria and with the continued collaboration of FMDQ acting as Secretariat to FC4SL, executed a capacity building webinar themed “How Circular Economy Drives Sustainable Development” on September 24, 2020, as part of its efforts towards aiding the delivery of the Sustainable Development Goal (SDG) 12 - Responsible Consumption & Production, through the Circular Economy (CE) Initiative of the Research, Education & Engagements Thematic Area of FC4SL. The capacity building session which was targeted at the ecosystem of the Nigerian manufacturing sector, provided expert discussions and deliberations on how Nigeria’s waste management challenges can be resolved through the adoption of a circular model that aims at eliminating waste, promoting the continued use and reuse of scarce resources and switching from a linear economic model of “*take, make and dispose*” to a circular economic model of “*take, make, recycle and reuse*”.

In her opening remarks, the Group Chief Operating Officer, FMDQ Group, Ms. Kaodi Ugoji, stated that “In recent years, the circular economy model has gained increasing prominence and has presented feasible solutions to some of the world’s most pressing crosscutting sustainable development challenges. By addressing root causes, the concept of a circular economy – an economy in which waste and pollution do not exist by design, products and materials are kept in use, and natural systems are regenerated – promises to accelerate the implementation of the United Nations 2030 Agenda.” Corroborating this assertion, Ms. Jessica Long, former Managing Director, Strategy & Sustainability, Accenture and Co-Author, The Circular Economy Handbook: Realising the Circular Advantage, added that “The current models of global production and consumption are unsustainable and irresponsible; noting that with the current trajectory, by 2050, the world would need three (3) – four (4) planets to survive. She added, “It is not just about waste – collectively, we are using more than we can regenerate and that continues to lead to extreme events like flooding, wildfires, mass involuntary migration, etc. Transitioning from a linear to a circular economy allows us to continue to grow and prosper within earth’s boundaries. And the financial opportunities for countries, businesses and individual is huge”.

Also speaking at the session, Mr. Christian Wessels, Co-founder Daystar Power Group, commented that “The rapid development of renewable energy solutions plays a vital role in the transition of Nigeria to a sustainable economy. Daystar Power is committed to supporting this transition by providing reliable, clean, and affordable power to Nigerian businesses”.

Commenting on the developments so far, Mr. Bankole Oloruntoba, Chief Executive Officer, Nigeria Climate Innovation Center (NCIC), highlighted that “Developing value chains, through stakeholders’ beneficial policies while creating accessible financial infrastructural interventions for the emerging circular economy in Nigeria will be instrumental in scaling sustainable development”. According to Ms. Agharese Onaghise, Executive Secretary, Food & Beverage Recycling Alliance (FBRA), “Nigeria can

make sustainable progress in supporting the achievement of the SDG 12 through waste recycling. This requires that policies remain consistent over time and a conscious and collective responsibility in the waste management value chain”.

#### About FC4SL

FC4SL was admitted in May 2019 as the 23rd member of the FC4S Global Network, as part of efforts to accelerate the expansion of sustainable finance in Nigeria through the collaborative partnership of the UNEP Inquiry, FMDQ Group - Africa’s first vertically integrated financial market infrastructure group – and other key stakeholders in the Nigerian financial market. With a mission “to position Lagos as a leading market in sustainability principles through investments, innovation, partnerships and capacity development”, FC4SL is structured as an Incorporated Trustee with an aspiration to become an independently run and self-funded initiative based in Lagos. FMDQ serves as the secretariat of FC4SL, coordinating the activities of the financial centre and liaising with the international network towards meeting the overarching objective of promoting green and sustainable finance in Nigeria.

Click [here](#) to watch the recording of the FC4SL and PwC Webinar on How Circular Economy Drives Sustainable Development.

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### **FMDQ-Next Commemorates International Literacy Day... Launches Virtual Financial Literacy Series**

In the aftermath of the COVID-19 outbreak, the education sector was identified as one of the most severely affected sectors with over 1.5 billion students out of school globally, according to a report of the United Nations Educational, Scientific and Cultural Organisation (UNESCO), leading to the need for the development of virtual learning methodologies to support learning continuity.

In line with the Company’s drive to facilitate financial market education across its stakeholders, to ensure continuous financial market empowerment sessions, FMDQ, through its flagship corporate responsibility programme, FMDQ Next Generation Financial Markets Empowerment Programme (FMDQ-Next or the Programme) – a learning and development initiative aimed at promoting financial market awareness and literacy among students across all levels (primary, secondary, tertiary), as well as fresh graduates – commenced online financial market education by launching its Financial Literacy Virtual Series, titled “The Money Genius”. The Programme was also launched in commemoration of

International Literacy Day, a day declared by UNESCO, to promote the importance of literacy as a matter of dignity and human rights, and to advance the literacy agenda towards a more literate and sustainable society, with a theme, “Literacy teaching and learning in the COVID-19 crisis”.

The FMDQ-Next Financial Literacy Virtual Series was launched as a 3-part series, running over three (3) days from September 11, 2020 to September 18, 2020, and targeted at kids between the ages of 10 – 16 years, with the purpose of teaching how the financial market works, how to grow and invest money, and key attitudes for wealth creation. Participants across the three (3) streams totalling over 170, expressed their delight having had an exciting time learning, and engaging in quizzes, interactive discussions, fun games, and activities. They also had the opportunity to meet FMDQ’s Group Chief Operating Officer, Ms. Kaodi Ugoji, for an engaging and inspiring special session.

Since the Programme launch in July 2018, over 590 participants, from primary school through to fresh graduates have been positively impacted. The Programme has also had 2 Summer Camps, 5 Excursions, 10 Trading Challenges and 8 Internships, with fundamental skills, which include but not limited to leadership, negotiation, decision making and strategic thinking, developed during the programme, to aid success in their professional journeys.

The FMDQ-Next Initiative has birthed various innovative and exciting programmes, ranging from Teach-a-class sessions – involving fun, educational and interactive financial markets exercises and activities; Excursions and Tours – where students are given the opportunity to visit FMDQ Group, as well as local and international financial markets institutions; Trading Simulation Exercises – where students learn how to trade a variety of securities in the financial market through the management of a virtual portfolio in a simulated environment; and, Summer Camp programmes, specifically for primary and secondary school students who learn about the financial market over the summer holidays.

The COVID-19 pandemic has changed how millions of students around the world are educated and has caused schools, governments and organisations to collaborate to ensure learning continuity and to minimise the potential loss of educational human capital and diminished economic opportunities in the long-term for students. As a responsible organisation committed to the development of our nation, FMDQ will continue to seek out opportunities to make significant impact in the development of the next generation by continually innovating and implementing initiatives to ensure the next generation of Nigerians are financially empowered.

FMDQ Group is Africa’s first vertically integrated financial market infrastructure (FMI) group and a one-stop platform to commence and finalise all securities transactions activities in the Nigerian financial market in a seamless, timely and cost-efficient manner. FMDQ is positioned to provide end-to-end execution, clearing and settlement of financial market transactions, as well as data and information services, across the debt capital, foreign exchange, derivatives and equity markets, through its wholly owned subsidiaries – FMDQ Securities Exchange, FMDQ Clear, FMDQ Depository Limited (FMDQ Depository) and FMDQ Private Markets Limited (FMDQ Private Markets).

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## **51<sup>st</sup> FX Futures Contract Matures and Settles on FMDQ**

On Wednesday September 30, 2020, the 51<sup>st</sup> FX Futures contract – NGUS SEP 30 2020 with a nominal value of \$1,538.14 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, to circa \$39.28 billion; with a total of about \$50.27 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 and settlement activities were effected accordingly by FMDQ Clear.

The CBN, as observed over the last fifty (50) maturities, introduced a new contract, NGUS SEP 24 2025 to replace the matured contract. The apex bank also refreshed its quotes on the existing 1 to 60-month contracts.

The contracts quotes are published daily on FMDQ's website at [www.fmdqgroup.com](http://www.fmdqgroup.com) and on the FMDQ Twitter page, [@FMDQGroup](https://twitter.com/FMDQGroup).

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## At a Glance: Update from FMDQ Clear

For the period in view, FMDQ Clear, in its expanded role as Nigeria's premier Central Counterparty continued to deliver on its mandate to enhance the integrity of and eliminate the inherent risks to bilateral trades in the Nigerian financial market, while supporting its reliability.

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 (Derivatives) Market**

S/N	Currency Futures	July	August	Change (%)
<b>Clearing</b>				
1	No. of Traded & Cleared Contracts	4,904	4,966	1.26
2	Value of Traded & Cleared Contracts (\$'bn)	48.82	50.02	2.46
3	Value of Open Contracts (as at August 31, 2020) (\$'bn)	12.66	12.28	(3.00)
<b>Settlement</b>				
4	No. of Matured & Settled Contracts	3,746	3,902	4.16
5	Value of Matured & Settled Contracts (\$'bn)	36.16	37.74	4.37

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

S/N	Sovereign Fixed Income	July	August	Change (%)
1	Total Value of Trades Processed (₦'bn)	3,418.59	4,087.61	19.57
2	Value of Trades Settled (₦'bn)	3,293.02	3,970.61	20.58
3	Value of Unsettled Trades (₦'bn)	125.57	116.99	(6.83)

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

S/N	Non-Sovereign Fixed Income	July	August	Change (%)
1	Total Value of Trades Processed (₦'bn)	7.11	5.19	(27.00)
2	Value of Trades Settled (₦'bn)	4.85	5.19	7.01
3	Value of Unsettled Trades (₦'bn)	2.26	0	N/A

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

### **At a Glance: Update from FMDQ Depository**

FMDQ Depository is a client focused depository, offering innovative and seamless services, and affording market participants the unique opportunity to benefit from its efficient processes.

With the support of market stakeholders, FMDQ Depository has successfully onboarded some of the choicest bonds and commercial papers onto its platform since its operationalisation in August 2019 till date – the Lagos State ₦100.00 billion Bond, the Dangote Cement PLC ₦100.00 billion Bond, the MTN Communications Nigeria PLC ₦100.00 billion Commercial Paper, the Flour Mills of Nigeria PLC ₦100.00bn Commercial Paper, to name a few.

FMDQ Depository's role as a Central Securities Depository (CSD) include maintaining and enhancing market efficiency, which is one of the core characteristics of a mature capital market, and the depository and attendant custodial service is one of the key ingredients of developed global markets. And as a strategically positioned CSD, FMDQ Depository complements the clearing function discharged by FMDQ Clear by providing the requisite framework for collateral caching, asset servicing and settlement services in the Nigerian financial markets, offering market participants an unrivalled opportunity to experience enhanced straight-through-processing.

For more on the service offerings of FMDQ Depository, please click [here](#)

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## FMDQ LISTINGS & QUOTATIONS

### **FMDQ Exchange Admits Over ₦55.00 billion Worth of Commercial Papers**

As most businesses across the globe continue to come to terms with the economic effects of the COVID-19 pandemic, the Nigerian Commercial Paper (CP) market has remained a viable option for corporate entities looking to raise funds to meet shortfalls in their working capital, as well as other short-term expenditures.

Committed to fostering the development of the Nigerian financial market by championing and supporting strategic market-driven initiatives, FMDQ Securities Exchange, the choice platform for the registration, listing, quotation, trading and recording of financial securities, through its Board Listings, Markets and Technology Committee, recently approved the quotation of the Mixta Real Estate PLC ₦2.39 billion Series 28 Commercial Paper under its ₦20.00 billion Commercial Paper Issuance Programme and the CardinalStone Partners Limited ₦5.00 billion Series 1 Commercial Paper under its ₦10.00 billion Commercial Paper Issuance Programme on its platform.

The Mixta Real Estate PLC and CardinalStone Partners Limited CPs would be used to finance the Issuers' short-term funding requirements. These CPs like all other securities listed, quoted and traded on the platform shall be availed global visibility through the FMDQ Exchange website and trading systems; transparency through its inclusion in the FMDQ daily quotations list; governance and continuous information disclosure to protect investor interest; credible price formation amongst other benefits derived from being quoted on the FMDQ Exchange.

In a quote by CardinalStone Partners Limited on its debut CP Issuance, the Issuer stated: "The admission of the Issuance by CardinalStone on the Exchange will allow the Company consolidate its position as a credible borrower from institutional investors and one of the few non-bank affiliated financial services businesses that have accessed the debt capital markets. More importantly, the Issuance will form part of the Company's strategy to diversify its financing mix and to fund its working capital requirements".

In the same vein, the Exchange welcomed the Quotation of the Dangote Cement PLC ₦16.00 billion Series 17 and ₦34.00 billion Series 18 Commercial Papers under its ₦150.00 billion Commercial Paper Issuance Programme on the Exchange platform. Notably the Exchange in July 2018 admitted the quotation of the benchmark series 1 & 2 CPs. Proceeds from these bonds will be used to refinance the manufacturing giant's short-term debt obligation as well as support its working capital.

This quotation by Dangote Cement is yet another validation of FMDQ Exchange as the choice platform for the registration, listing, quotation, trading and recording of financial securities in the Nigerian financial market. In turn, FMDQ Exchange strives to remain innovative even as it continues to provide timely and cost-efficient services, as may be necessary, to support its stakeholders, particularly issuers and investors, towards accessing capital, managing risks and invariably, improving their corporate



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profile. As has become tradition for FMDQ Exchange, these securities shall be availed benefits of FMDQ Exchange's prestigious listings and quotations service including global visibility through the FMDQ Exchange website and systems, governance, credible price formation and continuous information disclosure to protect investor interest, amongst others.

As a world-class vertically integrated financial market infrastructure group, committed to advancing the growth of the Nigerian capital market, FMDQ will continue to take crucial steps, in collaboration with market stakeholders, towards promoting transparency, governance, integrity and efficiency in the Nigerian capital market. In accordance with its strategic role as a market organiser and its evolution into a systemically important financial market infrastructure group within the Nigerian financial market ecosystem, FMDQ, as driven by innovation, collaborative relationships and future-forward technology, is positioned to bring about revolutionary changes in the Nigerian capital market through its exchange, clearing and depository subsidiaries; providing a seamless process and value-chain for the market participants to execute, clear and settle their transactions.

FMDQ remains committed to the development of the Nigerian financial market and has continued to sustain its efforts in supporting stakeholders with tailored offerings to enable them achieve their strategic objectives, deepen and effectively position the Nigerian capital market for growth, in support of the realisation of a globally competitive and vibrant economy.

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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 - August 2020)

Product Category	(₦'mm)	(\$'mm)
Foreign Exchange	22,067,720	59,364
Foreign Exchange Derivatives	26,015,819	69,169
Treasury Bills	4,848,512	12,687
OMO Bills	45,759,558	121,475
FGN Bonds	18,024,263	47,774
Other Bonds*	1,139	3
Eurobonds	323,938	851
Repurchase Agreements/Buy-Backs	32,051,870	84,512
Unsecured Placements/Takings	1,023,787	2,726
Money Market Derivatives	147,543	390
Commercial Papers	-	-
<b>Total</b>	<b>150,264,150</b>	<b>398,951</b>
<i>No. of Business Days</i>	166	166
<i>Average Daily Turnover</i>	<b>905,206</b>	<b>2,403</b>

Average YTD \$/₦ @ 378.92

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 @ September 7, 2020; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January - July 2020 period amounted to ₦150.26 trillion. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 32.00% of the market. Transactions in OMO bills accounted for 30.45% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 21.33%, and Bonds, Treasury Bills, Unsecured Placements & Takings and Money Market Derivatives representing 12.21%, 3.23%, 0.68% and 0.10% respectively, of overall market turnover.

### **Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - August 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	FIRST BANK OF NIGERIA LIMITED
5	STANDARD CHARTERED BANK NIGERIA LIMITED
6	ZENITH BANK PLC
7	CORONATION MERCHANT BANK LIMITED
8	GUARANTY TRUST BANK PLC
9	CITIBANK NIGERIA LIMITED
10	ECOBANK NIGERIA LIMITED

The top ten (10) Dealing Member (Banks) accounted for 79.42% (₦119.34 trillion) of the overall turnover in the market, with the top three (3) accounting for 62.29% (₦74.34 trillion) of this subsection of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC maintained the 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> positions respectively, in the value traded for the review period.

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## Introduction

This is the final edition of the Commercial Papers article series. Having covered introduction of CPs, types and commonly used terminologies, this article will focus on how investors can invest in the CP market. Investment in CPs is very similar to Treasury Bills, as they are both discounted instruments. However, CPs attract higher returns than T.Bills, because CPs entities (i.e. large corporates, multinationals, etc) are considered to be higher risk than the government who is considered to be risk-free.

Effective regulation is key in ensuring an organised CP market and protection of investors. In this light, the issuance of CPs in Nigeria is currently governed by the Central Bank of Nigeria Guidelines on the Issuance and Treatment of Bankers Acceptances and Commercial Papers (CBN Guidelines), while the Registration and Quotation of issued CPs is regulated by the Commercial Paper Registration and Quotation Rules (the Rules) of FMDQ Securities Exchange.

## Who Can Invest in a Commercial Paper?

Investment in CPs is open to only institutions or individuals capable of understanding and affording the financial risks associated with the acquisition of CPs. As captured in the FMDQ Rules, CP Investors are categorised into Qualified Institutional Investors (QIIs) and Eligible Investors (EIs). QIIs include banks, fund managers, pension fund administrators, insurance companies, investment/unit trusts, multilateral and bilateral institutions, registered private equity funds, registered hedge funds, market makers, staff schemes, trustees/custodians, stockbroking firms and any other category of investors as may be determined by the Securities and Exchange Commission from time to time. Whilst Guaranteed CPs may be sold to all investors (QIIs, EIs and any other Investor), Clean CPs shall only be sold to QIIs and EIs upon the execution of a declaration attesting to the Investor's awareness of the risks involved in investing in the Clean CPs.

To invest in Commercial Papers, investors can always approach their bank to request information on available CPs, as this will guide their decision. Key information required to invest in CPs includes interest rate, tenor, and minimum subscription. The minimum level of subscription for a CP issue is determined by the issuer and stated in the offer documents.

## Common Terminologies

CPs have various benefits to both issuers and investors. One of the key benefits to issuers is accessing funds at a lower cost to meet short-term needs. Below are some of the key benefits of CPs to investors.

- i. Higher Yields: CP investment attracts a higher return on investment compared to other short-term instruments such as bank deposits
- ii. Portfolio Diversification: CPs provides an attractive avenue for short-term portfolio diversification
- iii. Flexibility: The flexibility of the tenor of CPs (usually between 15 - 270 days) provides opportunity for investors to precisely match their cash flow requirement
- iv. Liquidity: CPs are relatively liquid as they have a secondary market where investors can sell their securities before maturity. This enhances easy entry and exit of investors in the CP market

## Registration and Quotation of Commercial Papers

Before CPs are issued to investors via the FMDQ Exchange platform, they go through the Registration and Quotation process. Registration entails the process by which an Issuer files documentation and other disclosure requirements with FMDQ Exchange, detailing the particulars for the establishment of a proposed CP Programme/Discreet Issue (*see definition in FMDQ Learning Article, August 2020 edition*), with the aim of issuing and quoting the CPs on the Exchange, while Quotation is the admission of issued CPs to the FMDQ Exchange platform for trading.

## Conclusion

As highlighted in previous articles, CPs provide the opportunity for issuers to access cheap financing to meet short-term obligations or increase their working capital. Likewise, CPs also provide investors with various benefits such as earning higher yields on investments, portfolio diversification, flexibility, liquidity, etc. One distinct feature of CPs is that investment is not open to the public, but only to investors capable of understanding and affording the financial risks associated with the acquisition of CPs.

FMDQ Exchange provides the platform for quoting and trading CPs in Nigeria, thereby making CP investments relatively liquid as they can be traded in the secondary market if investors wish to sell before maturity.

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