



FMDQ SPOTLIGHT

NEWSLETTER EDITION 84 – OCTOBER 2021



FMDQ

The logo consists of a stylized icon on the left, composed of three horizontal bars (top and bottom in grey, middle in yellow) that resemble a signal or data symbol. To the right of this icon is the text 'FMDQ' in a bold, blue, sans-serif font. The letter 'Q' is uniquely styled with a yellow outline and a small graphic element at its bottom right corner consisting of three white diagonal lines.



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FMDQ Clear Limited Becomes an Observer Member of CCP12 – The Global Association of Central Counterparties

In line with its vision “to become a globally accepted CCP by 2025”, FMDQ Clear Limited (“FMDQ Clear”), Nigeria’s Premier Central Counterparty (CCP) and a wholly owned subsidiary of FMDQ Holdings PLC (“FMDQ Group”), was admitted to the Global Association of Central Counterparties (“CCP12 or the “Association”), representing forty-one (41) members who operate more than sixty (60) individual CCPs globally across the Americas, EMEA and the Asia-Pacific region, as an Observer Member, following the just concluded monthly CCP12 Executive Meeting which held on Wednesday, October 20, 2021.

FMDQ Clear, which was registered as a CCP by the Securities and Exchange Commission (SEC), to provide post-trade services that will enhance the integrity of the financial market and eliminate the inherent counterparty risks therein, whilst facilitating settlement finality, delivering capital and cost efficiencies, and de-risking the Nigerian financial market, recognises the importance of forging alliances with key financial market Associations, both domestic and international, to enhance market development, capacity building and knowledge sharing opportunities and better equip FMDQ Clear to foster growth and development in the Nigerian financial market.

The Chairman, CCP12, Mr. Kevin McClear and Chief Executive Officer, CCP12, Mr. Teo Floor, stated “we are delighted to welcome FMDQ Clear to our global community. Their ongoing development signals the value of central counterparty clearing across a variety of markets, and we look forward to a successful collaboration.” CCP12 promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP12 leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers.

Speaking on the membership admission, Mr. Ayodele Onawunmi, Managing Director, FMDQ Clear, stated “we are excited to become a member of CCP12, a comity of world-class and vibrant CCPs, which provides the platform for global collaboration, engagements and knowledge sharing that will support the development of the Nigerian post-trade services value chain towards global standards. Our acceptance as an Observer Member of this global body of CCPs is a testament to our commitment to become a globally accepted CCP by 2025”. FMDQ Clear plays a key role in the Nigerian financial market and over the last four (4) years, has provided end-to-end post-trade services for the bespoke Naira-Settled OTC FX Futures (“NSOFF”) product traded on FMDQ Securities Exchange Limited (“FMDQ Exchange” or the “Exchange”), where it carries out its risk management functions and ensures settlement finality of executed NSOFF contracts. Following attainment of the much-needed legal framework – bankruptcy remoteness and netting arrangements via the repeal & re-enactment of the

Companies and Allied Matters Act, 2020, to enable a vibrant and thriving Exchange-Traded Derivatives (“ETD”) market, FMDQ Clear has commenced efforts to operationalise necessary structures for the activation of CCP services for the soon-to-be launched ETD and cash markets on FMDQ Exchange.

FMDQ Group Joins the World’s Exchanges to Ring the Bell for Financial Literacy

The World Investor Week (“WIW”) 2021, hosted by the World Federation of Exchanges, the global industry group for Exchanges and Central Counterparties, in partnership with the International Organisation of Securities Commissions, is a global campaign aimed at raising awareness on the importance of investor education and protection and promoting financial literacy. This 5th WIW, which is running from October 4 – 10, 2021, sees the uniting of over seventy-eight (78) Exchanges around the world in support of the awareness campaign through the “ringing of the bell” across multiple jurisdictions throughout WIW2021.

FMDQ Group joined the world’s Exchanges to commemorate the WIW 2021 through targeted social media campaigns, which showcased FMDQ’s contributions to investor education and financial literacy. A virtual “Ring the Bell for Financial Literacy” Ceremony was also held on Thursday, October 7, 2021, to create awareness on the importance of investor protection and to promote financial literacy.

As a financial market infrastructure group that prioritises investor protection and financial literacy, FMDQ Group, through the various initiatives of its wholly owned subsidiaries – FMDQ Exchange, FMDQ Clear, FMDQ Depository Limited (“FMDQ Depository”) and FMDQ Private Markets Limited (“FMDQ Private Markets”) – is committed to ensuring the interests of the investors in its markets are protected. These initiatives include, amongst others, the maintenance of an Investor Protection Fund by FMDQ Exchange, the provision of broad-spectrum clearing risk management for traded securities by FMDQ Clear, the facilitation of settlement finality for securities transactions through delivery versus payment by FMDQ Depository, and the provision of transparency for private securities issuances by FMDQ Private Markets.

FMDQ Group is also committed to investor education and financial literacy which are executed through its financial markets education initiatives – FMDQ Academy, and the FMDQ Next Generation Financial Markets Empowerment Programme (“FMDQ-Next”) [its flagship corporate responsibility initiative]. FMDQ Academy delivers specialised financial markets training to key stakeholders – Financial Markets Regulators, Government & Agencies, Members, Investors, Media and the Public – in line with FMDQ’s markets and products development agenda, while FMDQ-Next promotes financial markets awareness and literacy among students across the levels (primary, secondary and tertiary education levels, as well as to fresh graduates. FMDQ-Next, which was launched in 2018, has positively impacted over seven hundred and thirty-two (732) participants and counting.

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64th FX Futures Contract Matures and Settles on FMDQ

On Wednesday October 27, 2021, the 64th FX Futures contract – NGUS OCT 27 2021 with a nominal value of \$201.48 million, matured and settled on FMDQ 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 \$52.70 billion; with a total of circa \$58.39 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 sixty-three (63) maturities, introduced a new contract, NGUS OCT 28 2026 for \$1.00 billion at \$/₦14.32 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

[Click here to view Open FMDQ OTC FX Futures Contracts](#)

At a Glance: Update from FMDQ Clear

FMDQ Clear is Nigeria's premier Central Counterparty. Registered by the SEC, FMDQ Clear provides post-trade services to enhance the integrity of and eliminate the inherent counterparty risks in financial market transactions, whilst facilitating settlement finality, towards delivering capital and cost efficiencies, and de-risking the Nigerian financial markets.

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 (as of September 30, 2021)	August 2021	September 2021	Change (%)
Clearing				
1	No. of Traded & Cleared Contracts	5,477	5,546	1.26
2	Value of Traded & Cleared Contracts (\$'bn)	56.02	57.37	2.42
3	Value of Open Contracts (as of Sep. 30, 2021) (\$'bn)	3.86	4.85	25.63
Settlement				
4	No. of Matured & Settled Contracts	5,134	5,169	0.68
5	Value of Matured & Settled Contracts (\$'bn)	52.15	52.49	0.65

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

S/N	Sovereign Fixed Income	August 2021	September 2021	Change (%)
1	Total Value of Trades Processed (₦'bn)	3,418.18	3,766.15	10.00
2	Value of Trades Settled (₦'bn)	3,202.23	3,637.22	14.00
3	Value of Unsettled Trades (₦'bn)	215.94	128.93	(40.00)

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

S/N	Non-Sovereign Fixed Income	August 2021	September 2021	Change (%)
1	Total Value of Trades Processed (₦'bn)	1.00	0.30	(70.00)
2	Value of Trades Settled (₦'bn)	0.74	0.15	(79.00)
3	Value of Unsettled Trades (₦'bn)	0.27	0.15	(45.00)

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

At a Glance: Update from FMDQ Depository

With the successful establishment of the dual depository mandate for security issues which provides investors with the ability to choose which depository to use for both primary and secondary market activities, FMDQ Depository, having succeeded in establishing itself as a strong, effective and credible depository supporting securities in both the public and private markets, will also be focused on expanding its service offerings, towards making it the depository of choice in the Nigerian financial markets.

FMDQ Depository, leveraging on the effective support and collaboration of its stakeholders remains committed to delivering innovative and key market development initiatives in line with its vision “To be a foremost and diversified Depository in Africa by 2025”.

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

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FMDQ LISTINGS & QUOTATIONS

Viathan Funding PLC Registers its Commercial Paper Programme on FMDQ Exchange

The Nigerian Commercial Papers (“CP”) market continues to provide issuers with renewed opportunity to grow their businesses and restore investors’ confidence, simultaneously contributing to the overall development of the Nigerian debt capital market (“DCM”). In support of the development of the DCM, FMDQ Securities Exchange Limited (“FMDQ Exchange” or the “Exchange”), through its Board Listings and Markets Committee, has approved the registration of the **Viathan Funding PLC ₦20.00 billion CP Programme**.

Viathan Funding PLC is a special purpose vehicle established by Viathan Engineering Limited to raise capital from the Nigerian DCM. Viathan Engineering Limited is an integrated energy services solutions company in Nigeria that specialises in captive and embedded power generation, providing modular, scalable power-as-a-service to end users, government agencies, industrial and commercial services, amongst others.

Speaking on the successful CP Programme registration, the Co-Founder/CEO, Viathan Funding PLC, Mr. Habeeb Alebiosu stated “Viathan Funding PLC is pleased to announce the registration of a ₦20.00 billion CP Programme. This is another step towards positioning Viathan Funding PLC as a leading player in the integrated energy vertical. As we look to consolidate on our growth thus far, access to capital in the form of liquidity support instruments is crucial. This CP is a strategic funding initiative which will enable the much-needed agility required for containing lead times associated with infrastructure projects. We remain steadfast in our objective to unlock value for our stakeholders, as we develop the requisite infrastructure to facilitate generation, distribution of uninterrupted, environmentally clean electricity and to accelerate gas utilisation in Nigeria”.

Also, the sponsor of the CP Programme and a Registration Member (Quotations) of the Exchange, FBNQuest Merchant Bank Limited, represented by the Head, Capital Markets, Mr. Oluseun Olatidoye, said “FBNQuest Merchant Bank Limited is pleased about its role as Lead arranger on the registration of Viathan Funding PLC CP Programme under the ₦20.00 billion Programme. Funds raised under this programme will be utilised to meet the working capital needs of Viathan Funding PLC”.

The registration of this Programme on FMDQ Exchange’s platform demonstrates its continued commitment to project the DCM as the key source of finance for infrastructure and economic development in Nigeria. FMDQ Exchange remains unwavering in its pursuit of product and market innovation as well as stakeholder engagement, towards making the Nigerian financial market globally competitive, operationally excellent, liquid, and diverse, in line with its **GOLD** Agenda.

MTN Nigeria Communications PLC Lists ₦110.00bn Series 1 Fixed Rate Bond on FMDQ Exchange

FMDQ Securities Exchange Limited (“FMDQ Exchange” or the “Exchange”), following the due diligence of its Board Listings and Markets Committee, approved the listing of the **MTN Nigeria Communications PLC (“MTN Nigeria”) ₦110.00 billion Series 1 Senior Unsecured Fixed Rate Bond (“MTN Nigeria Bond”)** under its **₦200.00 billion Bond Issuance Programme** on the Exchange’s platform.

MTN Nigeria is Nigeria’s premier provider of connectivity, communication and collaboration solutions, and the largest privately owned mobile operator in Africa, Europe, and the Middle East. The company serves over seventy-seven (77) million subscribers with national coverage and a fibre network that reaches every state in the nation. The Chief Executive Officer, MTN Nigeria, Mr. Karl Toriola said “we are very proud of this landmark transaction, which is the first ever telecommunication bond issued in Nigeria and the largest corporate bond issuance in 2021. The Nigerian debt capital market has given us the opportunity to diversify our funding sources further and enabled us to extend the maturities of our debt portfolio to match infrastructure investments. Investors’ strong support for this transaction, given the challenging economic environment, is a reflection of their confidence in MTN Nigeria’s long-term strategy, the management team, the depth of the market, and the overall growth in the telecommunications industry, and we do appreciate the support”.

Speaking on the successful bond issuance, the sponsor of the bond and a Registration Member (Listings) of the Exchange, Chapel Hill Denham Advisory Limited, represented by the Chief Executive Officer, Mr. Bolaji Balogun, stated “the firm is honoured to have led the successful Series 1 bond issuance of ₦110.00 billion working with the six (6) joint Issuing Houses. The Series 1 bond was oversubscribed and strongly supported by robust demand from over two hundred (200) investors, which included Pension Funds & Asset Managers, Banks, Family Offices and High Net worth Individuals. This issuance is the largest corporate debt transaction this year and its success demonstrates MTN Nigeria’s strong credit profile, leading position in the market as well as its long-term prospects”.

The admission of this Bond to FMDQ Exchange is reflective of the potential of the Nigerian DCM and the commendable level of confidence demonstrated by both issuer and investors, and also validates the efficient processes and integrated systems through which FMDQ Group has sustained its service delivery to the market and its diverse stakeholders.

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FMDQ Exchange Admits Valency Agro Nigeria Limited Series 2 and 3 Commercial Papers

The Nigerian debt capital market (DCM) continues to play an important role in the efficient mobilisation and allocation of resources in the economy, the market has continued to effectively support corporates looking to expand their business operations. In this regard, FMDQ Securities Exchange Limited (“FMDQ Exchange” or the “Exchange”), a wholly owned subsidiary of FMDQ Holdings PLC (“FMDQ Group”), approved for Quotation of the **Valency Agro Nigeria Limited (“Valency Agro” or the “Issuer”) ₦4.57 billion Series 2 and ₦2.67 billion Series 3 Commercial Papers (CPs) under its ₦20.00 billion CP Programme** on its platform.

Valency Agro Nigeria Limited (“Valency Agro” or the “Issuer”) is a subsidiary of Valency International Pte Limited – an international commodity trading house with presence in over fifteen (15) countries – that deals in the sourcing, production, and trading of agro and consumer food products. The net proceeds from these CPs, which are sponsored by FBNQuest Merchant Bank Limited – a Registration Member (Quotations) of the Exchange, will be used by the Issuer for its short-term financing requirements. The quotation of these CPs reiterates the efforts of the Exchange to project the DCM as the key source of finance for the agriculture sector in Nigeria. The agricultural sector and its attendant transformation agenda have never been more important in driving increased and sustainable production of agricultural products as well as the derived foreign earnings through exports.

In keeping with its commitment to develop the Nigerian DCM, FMDQ Exchange will continue to 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.

FMDQ Group is Africa’s first vertically integrated financial market infrastructure group, strategically positioned to provide registration, listing, quotation and noting services; integrated trading, clearing & central counterparty, settlement, and risk management for financial market transactions; depository of securities, as well as data and information services, across the debt capital, foreign exchange, derivatives and equity markets, through its wholly owned subsidiaries – FMDQ Exchange, FMDQ Clear Limited, FMDQ Depository Limited and FMDQ Private Markets Limited.

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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), OMO Bills, Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds) Commercial Papers, CBN Special Bills 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 - September 2021)

Product Category	(N'mm)	(\$'mm)
Foreign Exchange	20,532,897	50,149
Foreign Exchange Derivatives	20,941,635	51,241
Treasury Bills	13,269,601	32,442
OMO Bills	28,858,049	70,917
CBN Special Bills	7,083,360	17,235
FGN Bonds	15,572,571	38,136
Promissory Notes	135,139	338
Other Bonds*	5,800	14
Eurobond	333,650	818
Repurchase Agreements/Buy-Backs	36,673,944	89,584
Unsecured Placements/Takings	1,952,459	4,772
Money Market Derivatives	12,110	31
Commercial Papers	-	-
Total	145,371,216	355,678
No. of Business Days	186	186
Average Daily Turnover	781,566	1,912

Average YTD \$/N @408.72

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), Central Bank of Nigeria

Source: FMDQ Data Portal as @ October 12, 2021; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the Jan. – Sep. 2021 period amounted to ₦145.37 trillion. Trading activities in FX (Spot FX and FX Derivatives) contributed the largest to overall turnover, accounting for 28.53% of the market. Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 25.23%. whilst transactions in OMO Bills in accounted for 19.85%. Bonds, Treasury Bills, Unsecured Placements & Takings, CBN Special Bills, Promissory Notes and Money Market Derivatives accounted for 10.95%, 9.13%, 1.34%, 4.87%, 0.09% and 0.01% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - September 2021)

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

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

The top ten (10) Dealing Member (Banks) accounted for 75.88% (₦110.30 trillion) of the overall turnover of trades in the secondary market, with the top three (3) accounting for 64.22% (₦70.83 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC ranked 1st, 2nd and 3rd positions respectively, in the value traded for the review period.

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FMDQ Fixed Income Primary Markets Sponsors' League Table (January – September 2021)

The FMDQ Fixed Income Primary Markets Sponsors' League Table shows the rankings of sponsors of fixed income securities (excluding FGN Bonds and T.bills) on FMDQ Exchange. The Registration Member (Listings) ("RML") and Registration Member (Quotations) ("RMQ") (collectively referred to

as “Registration Members” or “RMs”) are FMDQ Exchange’s authorised sponsors of securities listed and quoted on the Exchange.

RANK	BONDS	RANK	COMMERCIAL PAPERS
	REGISTRATION MEMBER (LISTINGS) (RMLs)		REGISTRATION MEMBER (QUOTATIONS) (RMQs)
1 st	Stanbic IBTC Capital Ltd.	1 st	Chapel Hill Denham Advisory Ltd.
2 nd	UCML Capital Ltd.	2 nd	Coronation Merchant Bank Ltd.
3 rd	Tiddo Securities Ltd.	3 rd	Stanbic IBTC Capital Ltd.
4 th	United Capital PLC	4 th	EAC Advisory Ltd.
5 th	Absa Capital Markets Nigeria Ltd.	5 th	UCML Capital Ltd.
5 th	Standard Chartered Capital and Advisory Nigeria Ltd.	6 th	Renaissance Securities Nigeria Ltd.
7 th	Planet Capital Ltd.	7 th	FBNQuest Merchant Bank Ltd.
8 th	FBNQuest Merchant Bank Ltd.	8 th	FSDH Capital Ltd.
8 th	Coronation Merchant Bank Ltd.	9 th	Standard Chartered Capital & Advisory Nigeria Ltd.
10 th	FCMB Capital Markets Ltd.	10 th	United Capital PLC
11 th	FSDH Capital Ltd.	11 th	Afrinvest (West Africa) Nigeria Ltd.
11 th	Rand Merchant Bank Ltd.	12 th	FCMB Capital Markets Ltd.
13 th	DLM Advisory Ltd.	13 th	CardinalStone Partners Ltd.
13 th	Cordros Capital Ltd.	14 th	Cordros Capital Ltd.
15 th	Vetiva Capital Management Ltd.	14 th	Vetiva Capital Management Ltd.
15 th	EAC Advisory Ltd.		
15 th	CardinalStone Partners Ltd.		
15 th	AVA Capital Partners Ltd.		
15 th	Rand Merchant Bank Nigeria Ltd.		
15 th	Renaissance Securities Nigeria Ltd.		
21 st	Chapel Hill Denham Advisory Ltd.		

Total Market Participation Analysis Jan. – Sep. 2021 (Bond and CP markets)

The top three (3) Sponsors in both the bond and CP markets were Stanbic IBTC Capital Ltd., UCML Capital Ltd. and Chapel Hill Denham Advisory Ltd., contributing 40.24% to total issuances in the review period. Stanbic IBTC Capital Ltd., occupying the 1st position, contributed 17.07% to total issuances and participated in both the bond and CP markets, whilst UCML Capital Ltd. and Chapel Hill Denham

Advisory Ltd. participating in the bond and CP markets and contributed 12.93% and 10.24% respectively to total issuances in the period.

FMDQ Fixed Income Primary Markets Solicitors' League Table (January – September 2021)

The FMDQ Primary Market Solicitors League Table shows the rankings of solicitors of fixed income securities (excluding FGN Bonds and T.bills) listed and/or quoted on FMDQ Exchange.

RANK	BONDS	RANK	COMMERCIAL PAPERS
	SOLICITORS		SOLICITORS
1 st	Udo Udoma & Belo-Osagie	1 st	Aluko & Oyebode
2 nd	Olaniwun Ajayi LP	2 nd	Udo Udoma & Belo-Osagie
3 rd	Banwo & Ighodalo	3 rd	Banwo & Ighodalo
4 th	The New Practice	4 th	G. Elias & Co.
5 th	G. Elias & Co.	5 th	Olaniwun Ajayi LP
6 th	Aluko & Oyebode	6 th	Duale, Ovia & Alex Adedipe
7 th	F.O Akinrele & Co.	7 th	The New Practice
		8 th	Advocaat Law Practice
		9 th	Adeniji Kazeem & Co.

Total Market Participation Analysis Jan. – Sep. 2021 (Bond and CP markets)

The most active Solicitor for the review period was Udo Udoma & Belo-Osagie participating as solicitor in both the bond and CP markets for the review period. Aluko & Oyebode came in second place participating only in the bond market while Banwo & Ighodalo came in third place participating in the bond and CP markets. The top three (3) solicitors for Jan. – Sep. 2021 (in both the bond and CP markets) contributed 70.36% to total issuances.

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Promoting Efficiency in the Nigerian Repo Market

In the April and May 2020 editions of the FMDQ Learning Article (“Learning Article”), Repurchase Agreements (“Repos”) and the Repo Market concepts were introduced and discussed extensively; these Learning Article editions also featured: the types of Repo transactions, key market participants, benefits of Repos as well as terminologies used in Repo markets. The June 2020 Learning Article edition further discussed Repo transactions in Emerging Market Economies (“EMEs”), specifically Nigeria, with a focus on the extant regulations and the risk management considerations.

This edition aims to cover some of the causes of operational inefficiencies within Nigerian Repo market and approaches to address these challenges.

A Repo, is a financial market transaction between two (2) counterparties in which one party (Repo Seller) sells a financial asset to the other party (Repo Buyer) at an agreed price and simultaneously commits to buy (i.e., repurchase) the same or identical financial asset from the Repo Buyer at an agreed price at a future date. The difference between the sale and repurchase price reflects the rate of interest to be earned by the Repo Buyer.

The Nigerian Repo market is experiencing an increase in participation as evident in the market turnover. As of Q3 2021, the Nigerian Repo market has recorded a turnover of ₦11.99 trillion, a 134.00% increase from Q3 2020 (c. ₦5.12 trillion)¹. However, there still exist some risks and limitations within the market.

Despite the tremendous growth in the Repo market, operational inefficiencies within the Nigerian Repo market impedes its global competitiveness. The limitations of the Nigerian Repo market include, inter alia:

- **Price Discovery:** The lack of a centralised platform for Repo transactions to promote price discovery and transparency in determining the secured lending rates indicates that market participants might not execute transactions at optimal market price
- **Collateral Valuation:** The lack of a periodic valuation mechanism of collateral transferred in a Repo transaction increases the market risk of counterparties to a Repo transaction
- **Collateral Substitution:** The lack of a centralised collateral management service increases the administrative burden of the collateral substitution and disincentivises market participants from executing Term Repos

¹ Source: FMDQ Data

The inefficiencies highlighted above can be addressed by introducing a centralised trading, reporting, settlement, and collateral management service into the Nigerian Repo market. Such a service was introduced in Japan, where the series of administrative processes in the Japanese Repo market were automated to promote market efficiency². Highlighted below are some of the crucial benefits of automating the processes across the Repo market value chain:

- **Market Transparency:** A centralised trading and reporting system will promote price discovery and transparency in the Repo market as market participants will be able to view quotes from multiple counterparties simultaneously and execute transactions based on the optimal market price
- **Short Settlement Cycles:** Shortening the settlement cycle and reducing settlement risks would contribute to enhancing the stability and efficiency of the financial market and would help to strengthen the international competitiveness of the Nigerian market
- **Collateral Management:** A centralised collateral management system reduces the administrative burden of collateral valuation and substitution as all collateral management processes are automated and typically outsourced to an independent third party

In view of the challenges identified above and in line with the strategic objective of FMDQ Exchange, to promote liquidity in the money markets and deepen the Nigerian fixed income markets, the Exchange initiated the Bilateral Repo with Collateral Management Project (the "Repo Project") to focus on enhancing/standardising the Repo market in Nigeria by facilitating on-system trading/reporting of Repos and introducing centralised collateral management and straight-through-processing/settlement of Repo transactions all to minimise counterparty risk and boost the efficiency of the Nigerian Repo market towards the development of the Nigerian financial market and economy at large.

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² https://www.boj.or.jp/en/research/wps_rev/rev_2015/data/rev15e04.pdf

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