



FMDQ SPOTLIGHT

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NEW STORIES

FMDQ Set to Go Live with its Exchange-Traded Derivatives

Today marks yet another significant milestone in the Nigerian financial markets as FMDQ Securities Exchange Limited and FMDQ Clear Limited, wholly owned subsidiaries of FMDQ Group PLC, with the support of the Securities and Exchange Commission, the Central Bank of Nigeria, and the Debt Management Office, Nigeria, go live with the introduction of the dynamic FMDQ Exchange-Traded Derivatives (ETD) Market, making it possible for market stakeholders – corporates, foreign & domestic investors and pension fund administrators – to hedge inherent financial market risks in their operational and investment activities, providing an opportunity to convert risk to financial security, which in turn will help attract capital flows, reduce cost of capital, promote market liquidity, and ultimately deepen the Nigerian financial markets.

The long-awaited FMDQ ETD market, which is geared towards transforming risk to certainty, in an unprecedented move, brings about the integration of the banking sector and capital market in Nigeria. Driven by FMDQ Securities Exchange Limited (FMDQ Exchange or the Exchange), Nigeria's largest Exchange by Turnover, in collaboration with FMDQ Clear Limited (FMDQ Clear or the Central Counterparty ([CCP])), Nigeria's foremost CCP, the FMDQ ETD Market, boasts of participation from ten (10) pioneer Deposit Money Banks and five (5) pioneer non-bank financial institutions, all positioned to change the landscape of the Nigerian financial markets in the near-to-medium term. With the CCP's extensive risk management structures and robust financial resources - c. \$20mm in FMDQ Clear's proprietary Default Resolution Reserve, and over \$12mm from Members' contributions to the CCP's default waterfall – the players will be able to leverage the financial capacity of the very big players in a market structure that transfers counterparty risks to a credible world-class CCP, FMDQ Clear.

In support of the ETD Market, the three (3) pioneer General Clearing Members (GCMs) - Access Bank PLC, Zenith Bank PLC, and Stanbic IBTC Bank PLC - who are capable of clearing transactions for their proprietary positions and those of other Trading Members and clients, will share mutualised responsibility as Members of the CCP, and clear their proprietary positions, as well as twelve (12) Derivatives Trading Members, bringing the pioneer Trading Members in the ETD Market to fifteen (15) - Meristem Stockbrokers Limited, CardinalStone Securities Limited, Chapel Hill Denham Securities Limited, Coronation Merchant Bank Limited, Union Bank of Nigeria PLC, Parthian Securities Limited, DLM Securities Limited, FBNQuest Merchant Bank Limited, First City Monument Bank Limited, Fidelity Bank PLC, FSDH Merchant Bank Limited, Greenwich Merchant Bank Limited, Access Bank PLC, Zenith Bank PLC and Stanbic IBTC Bank PLC.

The ETD Market goes live with two (2) pioneer products - the FGN Bond Futures and USD-NGN Non-Deliverable FX Futures - which will be traded and cleared on world-class FMDQ ETD systems, the FMDQ Q-ex Trading System and FMDQ Q-ex Clearing System, respectively. The development of this ETD Market in Nigeria has long been a topic of interest amongst capital market operators, regulators,

and market participants, as the Market directly plays a vital role in financial system stability and greatly contributes to various aspects of the economy as a whole. Leveraging on its aspiration to transform the Nigerian financial markets to be **globally competitive, operationally excellent, liquid, and diverse**, in line with the FMDQ 'GOLD' Agenda, the pre-eminence of the FMDQ ETD Market cannot be overemphasised as it ushers the actualisation of the panacea that will enable the development of a thriving financial sector, like other developed economies, positioning it for revolutionary growth in potentially colossal proportions.

The visionary pioneer Members of this FMDQ ETD Market, who have positioned themselves to take advantage of the emerging novel segment of the financial markets, must be commended for their instrumental role in driving the activation of this Market and the broader Nigerian financial markets. These pioneer Members have demonstrated their commitment as catalysts in fostering sustained growth and development in the Country's financial landscape.

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FMDQ Group PLC Holds 11th AGM; Achieves Remarkable Progress Despite Slow Economic Growth

The year 2022 was another challenging year in the global and domestic markets, with the uncertainties faced in the macroeconomic environment, such as increased inflation, rising interest rates, sustained illiquidity of the FX market, as well as the geopolitical turmoil, including the Russia-Ukraine war. Undeterred by the current market conditions, FMDQ Group, continued to work to address these challenges and sought ways to deepen the financial markets over the past year. The Group held its 11th Annual General Meeting (AGM) on Friday, July 28, 2023, to transact its ordinary and special business and receive relevant approvals from its stakeholders.

Dr. Kingsley Obiora, OFR, Group Chairman, FMDQ Group, presided over the AGM and as part of the ordinary business, presented the Audited Financial Statements for the year ended December 31, 2022, to shareholders, together with the Reports of the Directors and Auditors. Dr. Obiora commended the Group for not relenting in its continuous quest to deliver value to its varied stakeholder groups in recognition of its role as a critical FMI group in the Nigerian economy. Speaking further, he said 'FMDQ Group, together with its wholly owned subsidiaries – FMDQ Securities Exchange Limited, FMDQ Clear Limited, FMDQ Depository Limited and FMDQ Private Markets Limited – remained focused on championing innovative solutions in 2022, whilst providing efficient services, including registration, listing & quotation and noting services for the public and private markets, respectively; central counterparty (CCP), clearing and settlement services; securities depository services; data and information services, across the value chain of capital and financial markets’.

Commenting on the Group's financial performance, the Chairman stated that despite the macroeconomic challenges experienced during the year, FMDQ Group delivered a positive financial

performance in 2022. The Group reported an increase of 10.51% in the Group revenue, from ₦20.80 billion in 2021 to ₦22.98 billion in 2022. Overall market activity in the securities admission business of the Exchange market reported an 85.05% marginal increase, from eighty-seven (87) securities in 2021, with a total value of ₦1.03 trillion, to one hundred and sixty-one (161) securities, with a total value of ₦1.70 trillion in 2022. Within the year, significant progress was recorded on the achievement of critical milestones towards the establishment of a viable Exchange-Traded Derivatives (ETD) market following the publication of the CCP Clearing Risk Management Policies, as well as the granting of requisite Clearing membership approval to six (6) Dealing Member (Banks) (Full Licence and Approval-in-Principle, as applicable). FMDQ Depository saw the lodgement of one hundred and eighteen (118) securities, valued at ₦20.47 trillion, an impressive 281.00% increase from the thirty-one (31) securities lodgements valued at ₦689.38 billion recorded in 2021. The Private Companies' Securities Noting business of the FMDQ Private Markets' franchise also witnessed a remarkable growth with a 33% increase in the number of Private Companies' Securities noted. A total of twelve (12) securities were noted in 2022, compared to nine (9) noted in the previous year of 2021. The cumulative value of noted securities as of December 2022 was ₦343.12 billion, surpassing the ₦266.87 billion noted by the end of December 2021.

The Chief Executive Officer of FMDQ Group, Mr. Bola Onadele. Koko, while speaking about the 2023 outlook for FMDQ Group and its subsidiaries, said “FMDQ Securities Exchange Limited will continue to focus on its efforts to launch an active and viable ETD market and activate the Bilateral Repurchase Agreement (Repo) market with Collateral Management Service. FMDQ Clear will continue to focus on the immediate activation of its CCP Services for financial market transactions in the Derivatives, Fixed Income Spot & Repo Markets. FMDQ Depository will continue to focus on its mandate of being a provider of cutting-edge solutions to clients. FMDQ Private Markets will commence the development of its Private Companies’ Participatory Debt Note and upgrade of its Private Companies’ Securities Information and Distribution Portal (Restricted) to improve the functionalities and service offerings to its Members, amongst other initiatives. Ultimately, FMDQ Group will continue to position itself as a fully integrated FMI group, while consolidating efforts on developing its capital market businesses, as well as seeking opportunities to provide strategic and financial returns to the Group, in line with its Principal Investment Framework”.

With the support of and in collaboration with its stakeholders, FMDQ Group will continue to support important market development solutions in 2023, while offering effective services and infrastructure for the financial markets landscape through its subsidiaries and across the FMI value chain of FMDQ's business - Exchange, Central Counterparty, Depository - as well as Private Markets.

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85th FX Futures Contract Matures and Settles on FMDQ Exchange

On Wednesday, July 26, 2023, the 85th FX Futures contract – NGUS JUL 26 2023, with a nominal value of \$0.52 million, matured and settled on FMDQ Exchange. This maturity brings the total value of matured FX Futures contracts on the Exchange, since the inception of the market in June 2016, to circa \$61.52 billion; with a total of circa \$67.78 billion traded so far.

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

The Central Bank of Nigeria (**CBN**), as observed over the last eighty-four (84) maturities, introduced a new contract, NGUS JUL 26 2028, for \$1.00 billion at \$/₦1,567.49 to replace the matured contract. The apex bank also refreshed its quotes on the existing 1 to 60-month contracts.

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

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Update on Clearing and Settlement Activities

In line with its mandate of de-risking the Nigerian financial markets, as well as enhancing the integrity of the financial market ecosystem, FMDQ Clear, continued to record major feats in the provision of its clearing services whilst gaining the required experience on the workings for centrally-cleared products for the activation of its CCP services for the recently-activated ETD market.

In view of this mandate, the tables below provide an overview of the clearing and settlement activities 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	April 2023	May 2023	Change (%)
Clearing				
1	No. of Traded & Cleared Contracts	6,185	6,253	1.10
2	Value of Traded & Cleared Contracts (\$'bn)	66.54	67.78	1.87
3	Value of Open Contracts (\$'bn)	5.71	6.79	18.76
Settlement				
4	No. of Matured & Settled Contracts	5,778	5,806	0.48
5	Value of Matured & Settled Contracts (\$'bn)	60.82	61.00	0.29

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

S/N	Sovereign Fixed Income	May 2023	June 2023	Change (%)
1	Total Value of Trades Processed (₦'bn)	14,324.54	13,611.45	(4.98)
2	Value of Trades Settled (₦'bn)	12,754.62	11,523.74	(9.65)
3	Value of Unsettled Trades (₦'bn)	1,569.91	2,087.71	32.98

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

S/N	Non-Sovereign Fixed Income	May 2023	June 2023	Change (%)
1	Total Value of Trades Processed (₦'bn)	29.70	21.00	(29.29)
2	Value of Trades Settled (₦'bn)	29.69	21.00	(29.27)
3	Value of Unsettled Trades (₦'bn)	0.01	0.00	(100.00)

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

Update on Admitted Securities on FMDQ Depository

FMDQ Depository Limited (“**FMDQ Depository**”), registered by the SEC, is positioned to provide a safe depository for financial market assets, as well as facilitate the settlement of capital market transactions.

During the period under review, FMDQ Depository successfully admitted the following securities on its platform:

- Robust International Commodities Limited ₦1.25 billion Series 7 and ₦1.01 billion Commercial Papers (“CPs”) under its ₦20.00 billion CP Issuance Programme
- Veritasi Homes & Properties Limited ₦0.69 billion Series 5 CP under its ₦10.00 billion CP Issuance Programme
- MyCredit Investments Limited ₦2.50 billion Series 1 CP under its ₦2.50 billion CP Issuance Programme
- Coleman Technical Industries Limited ₦5.10 billion Series 9 and ₦9.08 billion Series 10 CPs under its ₦20.00 billion CP Issuance Programme
- FBNQuest Merchant Bank Limited ₦2.81 billion Series 25 and ₦2.47 billion Series 26 CPs under its ₦100.00 billion CP Issuance Programme
- Eunisell Limited ₦1.41 billion Series 3 and ₦1.90 billion Series 4 CPs under the ₦10.00 billion CP Issuance Programme
- HillCrest Agro-Allied Industries Limited ₦1.64 billion Series 1 and ₦1.23 billion Series 2 CPs under its ₦5.00 billion CP Issuance Programme
- Skymark Partners Limited ₦0.92 billion Series 12 and ₦0.87 billion Series 13 CPs under its ₦5.00 billion CP Issuance Programme
- Emerging Africa Capital Limited ₦1.66 billion Series 3 and ₦1.46 billion Series 4 CPs under its ₦15.00 billion CP Issuance Programme
- TrustBanc Holdings Limited ₦0.69 billion Series 16, ₦0.12 billion Series 17 and ₦1.11 billion Series 18 CPs under its ₦20.00 billion CP Issuance Programme
- Neveah Limited ₦1.10 billion Series 10 CP under its ₦20.00 billion CP Issuance Programme

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

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As part of its mandate to accelerate the development of the Nigerian debt markets, FMDQ Exchange continues to use its credible platform to efficiently enhance the registration, listing, quotation, and trading of debt securities in the Nigerian financial markets. In this regard, the Board Listings and Markets Committee of FMDQ Exchange has approved the **quotation of MyCredit Investments Limited ₦2.50 billion Series 1 CP under its ₦2.50 billion CP Issuance Programme** on its platform.

MyCredit Investments Limited (the “**Issuer**”) is a digital consumer and small and medium-scale enterprises lender, and provider of digital financial services in Nigeria. The proceeds from this CP, which is sponsored by United Capital PLC (*Lead Sponsor*), FBNQuest Merchant Bank Limited and Renaissance Securities (Nigeria) Limited (*Co-Sponsors*) – all Registration Member (Quotations) of FMDQ Exchange, will be applied by the Issuer for its general corporate purposes.

The Nigerian CP market, as administered by FMDQ Exchange, continues to provide issuers with renewed opportunities to grow their businesses and maintain the much-needed restored confidence of investors, whilst contributing to the overall growth of the Nigerian economy. The Exchange will continue to provide a liquid, transparent and efficient market geared towards supporting the aspirations of corporates, to unlock the required capital to bridge the funding gap in their various sectors.

Committed to fostering economic development by championing market-driven strategic initiatives, FMDQ Exchange, Nigeria's largest Exchange by market turnover, is pleased to announce the approval for the registration of **AOS Orwell Limited ₦8.00 billion CP Programme** on its platform. The successful registration of this CP Programme demonstrates FMDQ Exchange's continued efforts to promote market development and make the markets within its purview globally competitive.

AOS Orwell Limited (“**AOS Orwell**” or the “**Company**”) is a one-stop-shop for the oilfield servicing industry in Nigeria that provides integrated, end-to-end services in production, drilling, workover and abandonment. The Company’s expertise also covers Process Automation, Electrical Power, Operations & Maintenance and Oilfield Tubular solutions. This CP Programme, which is sponsored by Cedrus Capital Limited (*Lead Sponsor*), AVA Capital Partners Limited, NOVA Merchant Bank Limited and Greenwich Merchant Bank Limited (*Co-Sponsors*) – all Registration Member (Quotations) of the Exchange, strategically positions AOS Orwell to raise short-term finance from the Nigerian CP market at any time deemed suitable, through CP issues, within the approved Programme limit.

As an exchange with a commitment to facilitate growth and development in the Nigerian debt markets and the economy at large, FMDQ Exchange will continue to sustain its efforts in supporting issuers with tailored financing options and promote an efficient, transparent, and well-regulated market, which will attract and retain both domestic and foreign investors.

FMDQ Group is Africa’s first vertically integrated financial market infrastructure (“**FMI**”) 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. As a sustainability-focused FMI group, FMDQ Group, through FMDQ Exchange, operates Africa’s premier Green Exchange – FMDQ Green Exchange – positioned to lead the transition towards a sustainable future.

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

FMDQ Turnover & Dealing Member (Banks)' League Table Report

The FMDQ Market Turnover Report details the turnover on all products traded in the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), OMO Bills, CBN Special Bills, Promissory Notes, Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate, Supranational, Sukuk & Eurobonds) Commercial Papers and Money Market Transactions (Repurchase Agreements 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 Exchange Market Turnover (January – June 2023)

Product Category	(₦'mm)	(\$'mm)
Foreign Exchange	19,370,263	39,315
Foreign Exchange Derivatives	15,906,969	32,284
Treasury Bills	8,681,462	17,811
OMO Bills	12,102,335	25,358
CBN Special Bills	8,677,514	17,825
FGN Bonds	12,821,890	26,381
Promissory Notes	1,909	4
Other Bonds*	150	0
Eurobond	56,652	118
Repurchase Agreements/Open Repos	23,177,854	47,309
Unsecured Placements/Takings	1,373,466	2,801
Money Market Derivatives	11,000	24
Commercial Papers	4,600	10
Sukuk Bonds	57,594	120.2
Total	102,243,658	209,361
No. of Business Days	121	121
Average Daily Turnover	844,989	1,730

Average YTD \$/₦ @ 488.36

mm - million

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

Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks), CBN - Central Bank of Nigeria

Source: FMDQ Data Portal as @ July 7, 2023; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January - June 2023 period amounted to ₦102.24 trillion. Trading activities in the FX (Spot FX and FX Derivatives) market had the largest contribution, accounting for 34.50% of overall market turnover. Repurchase Agreements (Repos) accounted for 22.67%, whilst transactions in OMO Bills accounted for 11.84%. Bonds, T.bills, CBN Special Bills, Promissory Notes, Unsecured Placements & Takings and Money Market Derivative accounted for 12.65%, 8.49%, 8.49%, 0.002%, 1.34% and 0.01%, of overall market turnover.

FMDQ Dealing Member (Banks) League Table (January - June 2023)

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

RANK	DEALING MEMBER (BANKS)
1	Stanbic IBTC Bank PLC
2	United Bank for Africa PLC
3	Access Bank PLC
4	First Bank of Nigeria Limited
5	Coronation Merchant Bank Limited
6	Zenith Bank PLC
7	Ecobank Nigeria Limited
8	Polaris Bank Limited
9	Sterling Bank PLC
10	Standard Chartered Bank Nigeria Limited

Based on value traded during the review period, Stanbic IBTC Bank PLC, United Bank for Africa PLC and Access Bank PLC ranked 1st, 2nd and 3rd positions respectively. The top ten (10) Dealing Member (Banks) accounted for 71.98% (₦89.38 trillion) of the overall turnover in the secondary market, while top three (3) accounted for 36.84% (₦45.75 trillion).

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FMDQ Fixed Income Primary Markets Sponsors' League Table (January – June 2023)

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 Limited	1 st	Stanbic IBTC Capital Limited
1 st	FCMB Capital Markets Limited	2 nd	FBNQuest Merchant Bank Limited
2 nd	United Capital PLC	3 rd	FCMB Capital Markets Limited
2 nd	Rand Merchant Bank Nigeria Limited	4 th	FSDH Capital Limited
2 nd	Vetiva Capital Management Limited	5 th	United Capital PLC
2 nd	Absa Capital Markets Nigeria Limited	6 th	Coronation Merchant Bank Limited
3 rd	Chapel Hill Denham Advisory Limited	7 th	Chapel Hill Denham Advisory Limited
4 th	FBNQuest Merchant Bank Limited	8 th	Rand Merchant Bank Nigeria Limited
5 th	Renaissance Securities Nigeria Limited	9 th	Quantum Zenith Capital & Investments Limited
6 th	Coronation Merchant Bank Limited	10 th	ARM Securities Limited
6 th	Quantum Zenith Capital & Investments Limited	11 th	Greenwich Merchant Bank Limited
6 th	Greenwich Merchant Bank Limited	12 th	Cordros Capital Limited
6 th	Futureview Financial Services Limited	13 th	Comercio Partners Capital Limited
6 th	Afrinvest Capital Limited	14 th	SCM Capital Limited
6 th	Standard Chartered Capital and Advisory Nigeria Limited	14 th	Kairos Capital Limited
6 th	Ecobank Development Company Limited	15 th	Futureview Financial Services Limited
6 th	Meristem Capital Limited	15 th	Tiddo securities Limited
7 th	FSDH Capital Limited	16 th	Constant Capital Markets and Securities Limited
8 th	CardinalStone Partners Limited	17 th	CardinalStone Partners Limited
8 th	Radix Capital Partners Limited	18 th	Afrinvest Capital Limited
		19 th	Nova Merchant Bank Limited
		20 th	SFS Financial Services Limited
		21 st	UCML Capital Limited
		22 nd	Emerging Africa Capital Advisory Limited
		23 rd	DLM Advisory Limited
		24 th	Ava Capital Partners Limited
		25 th	Radix Capital Partners Limited
		25 th	Boston Advisory Limited
		26 th	Qualinvest Capital Limited

	27 th	Mega Capital Financial Services Limited
	28 th	FSL Securities Limited
	29 th	Renaissance Securities Nigeria Limited
	30 th	EAC Advisory Limited

Total Market Participation Analysis H1 2023 (Bond and CP markets)

The top three (3) Sponsors were (in order) Stanbic IBTC Capital Limited, FBNQuest Merchant Bank Limited and FCMB Capital Markets Limited contributing 31.88% to total issuances in the bonds and CP category for the review period. For the Bonds category, Stanbic IBTC Capital Limited and FCMB Capital Markets Limited equally ranked 1st while Rand Merchant Bank Nigeria Limited, United Capital PLC, Vetiva Capital Management Limited and Absa Capital Markets Nigeria Limited equally ranked 2nd with Chapel Hill Denham Advisory Limited ranking 3rd. In the CP markets, the top three (3) Sponsors were Stanbic IBTC Capital Limited, FBNQuest Merchant Bank Limited and FCMB Capital Markets Limited.

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FMDQ Fixed Income Primary Markets Solicitors' League Table (January – June 2023)

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 SOLICITORS	RANK	COMMERCIAL PAPERS SOLICITORS
1 st	Banwo & Ighodalo	1 st	Aluko & Oyeboode
2 nd	Aluko & Oyeboode	2 nd	Banwo & Ighodalo
3 rd	Olaniwun Ajayi LP	3 rd	Udo Udoma & Belo-Osagie
4 th	The Metropolitan Law Firm	4 th	G. Elias & Co.
5 th	Templars	5 th	The New Practice
		6 th	Olaniwun Ajayi LP
		7 th	Templars
		8 th	Advocaat Law Practice
		9 th	Mathmer Legal Practitioners
		10 th	Detail Commercial Solicitors
		11 th	Africa Law Practice NG & Company
		12 th	TOLG Advisors
		13 th	Chariots and Spirit LP

Total Market Participation Analysis H1 2023 (Bond and CP markets)

The most active Solicitor for the review period was Aluko & Oyeboode participating as solicitor in both the bond and CP markets for the review period. Banwo & Ighodalo came in second place participating in both the bond and CP markets while Udo Udoma & Belo-Osagie came in third place participating in the CP market only. The top three (3) solicitors for H1 2023 contributed 95.72% to total issuances.

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Beginners Knowledge on FMDQ Exchange-Traded Derivatives Market

Introduction

In our previous articles on the refresher for derivatives, we introduced the concept of derivatives, history, global trends, differences between over-the-counter (OTC) and exchange-traded derivatives (ETD), opportunities in emerging economies/markets, as well as the growth, evolution and opportunities in the derivatives markets.

As a background, derivatives are defined as financial instruments whose value is derived from changes in the level, price, or occurrence of underlying assets, securities, rates, or events. These instruments have no independent value, and their worth is dependent on the fluctuations of the underlying asset(s). Underlyings can range from equities and bonds to interest rates, foreign currencies, and commodities.

In this article, we will discuss FMDQ ETD market – key stakeholders, risk management mechanisms, users, unique selling points, how the market works, and a brief introduction to the various products. In line with its market development mandate, FMDQ Exchange introduced its flagship ETD market with the introduction of derivatives contracts that seek to serve as risk management tools for inherent risks in the Nigerian financial markets.

Key Participants in the FMDQ Exchange-Traded Derivatives Market

- **FMDQ Exchange:** Acts as the market organiser in the FMDQ ETD market. The Exchange performs the following functions, inter alia:
 - Creation/deployment of trading platform
 - Development of the Framework & Rules that govern the market
 - Establishment of a robust market structure
- **FMDQ Clear:** Act as the clearing and settlement agent for transactions traded and reported on FMDQ Exchange. FMDQ Clear is also responsible for the execution of risk management activities such as netting, margining & novation, in a bid to ensure settlement finality
- **FMDQ Derivatives Trading Members:** These are Members of FMDQ Exchange, authorised to execute trades for their proprietary accounts or on behalf of their clients
- **FMDQ Clearing Members:** These are Members of the FMDQ Clear, who are authorised to clear derivatives transactions on behalf of Derivatives Trading Members on the FMDQ Clear-advised platform

- **End-Users:** These are institutions/individuals who Derivatives Trading Members provide trading services to. They include banks, non-bank financial institutions, fund/asset managers, corporates institutions, etc.

Risk Management Mechanisms in the FMDQ ETD Market

The difference between the OTC and ETD derivatives market is the presence of risk management mechanisms to ensure settlement finality whilst mitigating counterparty credit risk, as a result of the presence of the CCP. In the FMDQ ETD market, FMDQ Clear is responsible for ensuring effective and efficient risk management through the following mechanisms:

- **Netting:** The process involves offsetting positions between market participants, thereby calculating the net exposure of each participant across all transactions. This reduces the overall risk exposure in the market and contributes to a more efficient market
- **Novation:** This involves the CCP, such as FMDQ Clear, interposing itself as a central intermediary between all transaction counterparties, that is buyers and sellers. Upon trade execution, FMDQ Clear becomes the buyer to the seller and the seller to the buyer. This eliminates direct counterparty risk, as all trades are cleared through FMDQ Clear, reducing the potential default risk
- **Margining:** FMDQ Clear has put in place a margining system to mitigate against potential losses due to adverse market movements. Market participants are required to deposit initial margin, also known as the good-faith-deposit, which is a collateral, intended to cover potential losses during the transaction life cycle. Margin requirements ensure that participants have sufficient funds to meet their obligations and mitigate the default risk
- **Default Management:** In the event of a default, FMDQ Clear has developed a comprehensive default management framework, in form of a default risk waterfall model. Consequently, Clearing Members are required to contribute to the CCP's Default Fund, wherein the funds can be withdrawn to settle the defaulting counterparty's obligations in the following order:
 - Initial Margin Requirement
 - Defaulting Clearing Member Contribution to Default Fund
 - CCP Capital Contribution to Default Fund
 - Non-Defaulting Clearing Member Contribution to Default Fund
 - CCP Equity and other Financial Resources

Users of FMDQ Exchange-Traded Derivatives Products

The target users of FMDQ ETD products include institutions and individuals that have exposure to market risk factors ranging from interest rate, exchange rates, equity prices to commodities prices, owing to their operational, commercial, and investment activities in the Nigerian financial markets. Hence, these institutions bear financial losses arising from the fluctuations in the aforementioned market risk factors and need to hedge same. The target users include the following:

1. Banks
2. Non-Bank Financial Institutions, e.g., Pension Funds Administrators (PFAs), Insurance Companies, Asset Managers, etc.
3. Government & government-related entities,
4. Corporates and other financial market participants

Unique Selling Points

The major advantages of the FMDQ ETD market are highlighted below:

- **Low Capital Outlay:** Investors are allowed to control a much larger position in the market with a minimal capital outlay, compared to the underlying spot market
- **Proxy Hedge:** The FMDQ ETD market allows the use of a price-or rate-correlated financial instrument to hedge a particular risk when a direct hedge for the risk is unavailable
- **Arbitrage Opportunities:** Investors are allowed to take advantage of price differences in the derivatives and underlying spot markets, thus promoting market efficiency
- **Market Access:** Owing to its standardised nature, FMDQ ETD market promote easy entry and exit, thereby enhancing market liquidity and increased participation

Workflow of Trading in the FMDQ Exchange-Traded Derivatives Market

This segment highlights the transaction flow in the FMDQ ETD market, explaining how the FMDQ ETD market works. Similarly, this will help in understanding the roles each market participant play in the FMDQ ETD market.

Step	Action	Description
1	Trade Execution	Derivatives Trading Member initiates and executes trades on behalf of end-users on the FMDQ Exchange-designated trading system
2	Transfer of Trade Information	Upon execution of trades, transactions will be centrally cleared by FMDQ Clear via novation (i.e., becoming the buyer to every seller and the seller to every buyer)
3	Pledging of Initial Margin	End-users will be required to provide "good-faith-deposit" or initial margin, through the designated Derivatives Trading Member, to FMDQ Clear for trades executed

4	Daily Mark-to-Market & Settlement	All contracts will be valued daily by FMDQ Clear till maturity, and the resultant daily gains/losses as well as the full value of margins collected will be received/paid by the contract holders (end-users) from/to FMDQ Clear at contract maturity through the designated Derivatives Clearing Members
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Pioneer Products of the FMDQ Exchange-Traded Derivatives Market

Following the activation of the FMDQ ETD market, FMDQ Securities Exchange Limited introduced the following two (2) pioneer products:

- **FGN Bond Futures:** These are financial derivatives that create an obligation for the contract holder to purchase or sell an FGN bond on a specified date at a predetermined price
- **Naira-Settled Exchange-Traded FX Futures:** These are financial derivatives that create an obligation for the contract holders to exchange cashflows on a specified date based on the predetermined rate of the United States Dollar (USD) relative to the Nigerian Naira (NGN)

Conclusion

In conclusion, the FMDQ ETD market offers a secure and transparent platform for market participants to trade standardised contracts, whilst reducing counterparty credit risk as a result of the CCP's presence. FMDQ Exchange as a leading financial market infrastructure will continue to play a crucial role in introducing products that seeks to drive market development. In subsequent articles, we will discuss more about the FMDQ ETD products.

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