



FMDQ SPOTLIGHT

NEWSLETTER EDITION 104 – JUNE 2023



FMDQ



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FMDQ Set to Go Live with its Exchange-Traded Derivatives

...Positioned to convert uncertainty to financial security for businesses

FMDQ Securities Exchange Limited, a wholly owned subsidiary of FMDQ Group PLC (“**FMDQ Group**”), with the support of the Securities and Exchange Commission (SEC), the Central Bank of Nigeria (CBN), FMDQ Clear Limited, and key market participants, is set to provide a long-awaited panacea to the Nigerian financial markets, with the introduction of its dynamic Exchange-Traded Derivatives (ETD) market, on Wednesday, July 12, 2023. The trailblazing FMDQ ETD market will go-live with four (4) products – the Federal Government of Nigeria Bond Futures, Treasury Bills Futures, Open Market Operation Bills Futures and Naira-Settled Exchange-Traded FX Futures. It is strongly envisaged that these products will deliver the dividends of a derivatives markets by serving as useful risk management tools, supporting price discovery, competitiveness, and market efficiency, which in turn will help attract capital flows, reduce cost of capital, promote secondary market liquidity, and ultimately deepen the Nigerian financial markets. The stage is, therefore, set for the go-live of the FMDQ ETD market, the biggest innovation to yet arise from the stables of the FMDQ franchise, following the launch of the Naira-Settled OTC FX Futures by CBN and FMDQ in 2016, which was instrumental in minimising the disequilibrium in the FX market, whilst attracting significant inflows into the Nigerian fixed income and equity markets.

Globally, financial markets are plagued with heightened price volatility, fluctuating market prices/rates, and constant uncertainty of macroeconomic indicators, with the Nigerian financial markets not faring any better. To counter and assuage these adverse effects, robust and efficient risk management tools, such as derivatives are typically employed. Whilst model markets have been able to harness the potential of the derivatives markets to mitigate risk efficiently, diversify investment portfolios, and allow businesses pursue expansion with higher risk in a safe manner, the reverse is the case in emerging and frontier markets, such as Nigeria, as derivatives markets are non-existent or small – with dearth of derivatives products – at best, and hedging costs are high, making it uninteresting for market participants.

It is on this premise that FMDQ Securities Exchange Limited (“**FMDQ Exchange**” or the “**Exchange**”), in keeping with its mandate to advance economic progress by championing laudable market development initiatives in the Nigerian financial markets, activated the FMDQ Derivatives Market Project (the “**Project**”). Commencing as a feasibility study in 2015, the Project was set up with the aim to launch Nigeria's most dynamic Exchange-Traded Derivatives Market, in collaboration with market stakeholders; thereby introducing exchange-traded risk hedging products to the Nigerian financial markets, as is obtainable in other developing and developed financial markets globally.

The Project has recorded many milestones and implemented several initiatives including, but not limited to, the development of the FMDQ ETD Market Framework, SEC-approved Rules, and membership requirements; deployment of fit-for-purpose and optimised ETD trading and clearing modules on the FMDQ Q-ex System; development of Risk Management and Operational Framework across the financial market infrastructure (FMI) value chain; development of SEC-registered derivatives products; and execution of various stakeholder engagements and training sessions, impacting over 2,600 market stakeholders across the financial markets value chain, ranging from regulators, financial and non-bank financial institutions, corporate treasurers, accountants, legal practitioners, journalists and individuals, to sensitise and promote readiness for the imminent launch of the FMDQ ETD market.

Also primed for the activation of the FMDQ ETD market is FMDQ Clear Limited (“**FMDQ Clear**”), Nigeria’s foremost Central Counterparty (CCP), which since receiving its CCP registration from the SEC in 2021, has re-defined the landscape of the sanctity of financial transactions and sparked the introduction of endless possibilities to the scope of permissible products (including derivatives), which can be developed and deployed within the Nigerian financial markets. FMDQ Clear, in preparation for the ultra-important CCP role of de-risking the Nigerian financial markets, has steadily built its Default Resolution Reserve, which will form part of its robust default waterfall, to ensure adequate financial resources are available to the CCP to deal with any defaults that may arise in the ETD market, to c. \$20mm from its retained earnings over the past five (5) years, and is positioned to grow this to over \$30mm in the short- to medium-term. With its extensive risk management structures and robust financial resources, FMDQ Clear is well able to manage the consolidated risks in an operational, cost and capital efficient manner that unlocks value for market participants in the FMDQ ETD market, by aggregating and consolidating counterparty risks and introducing the much-desired counterparty agnostic trading feature that will propel the growth of trading liquidity of financial products in the Nigerian financial markets to international standards and practices.

As market participants position themselves to take advantage of the emerging novel segment of the financial markets, FMDQ Exchange is working with its twenty-one (21) Dealing Members (DMs) - three (3) DMs with full licences and eighteen (18) DMs with Approval-in-Principle - to participate in the FMDQ ETD market as its pioneer Derivatives Trading Members (DTMs). The DTMs will receive support from FMDQ Clear, through six (6) Deposit Money Banks (DMBs) who will share mutualised responsibility, as Members of the CCP, in its mandate of ‘de-risking’ the Nigerian financial markets either as General Clearing Members (GCMs) - capable of clearing transactions for their proprietary positions and those of other DTMs and clients; or as Direct Clearing Members (DCMs) - capable of clearing their proprietary positions and those of their clients only. It is worthy of note that of the six (6) DMBs, there are five (5) GCMs, three (3) of which have full licenses (Access Bank PLC, Stanbic IBTC Bank PLC, and Zenith Bank PLC) whilst the other two (2) have Approval-in-Principle, pending the completion of their SEC registration (First City Monument Bank Limited and United Bank for Africa PLC). The sixth DMB (Fidelity Bank PLC) is a DCM with an Approval-in-Principle, also pending the completion of its SEC registration.

In support of the launch of an active and thriving ETD market, FMDQ Exchange introduced the first of its kind Derivatives-focused Podcast in Nigeria, ‘Q-Dialogue’, an FMDQ-framed colloquy, which is aimed at providing valuable, accurate, and objective information and insight on the FMDQ ETD

market. Likewise, in furtherance of its business development mandate to implement initiatives that promote awareness and drive participation in the FMDQ derivatives market, FMDQ Exchange developed the 'Q-Estimator', an automated calculator that avails market participants the opportunity to estimate the cost of hedges and potential profit/loss in derivatives transactions or positions in the Nigerian financial markets, thereby equipping market participants to make strategic and informed investment decision-making in the FMDQ derivatives market.

As an important financial market infrastructure aspiring to transform the Nigerian financial markets, in collaboration with key market stakeholders, to be globally competitive, operationally excellent, liquid and diverse, in line with the FMDQ 'GOLD' Agenda, the overarching essentiality of the FMDQ ETD market cannot be overemphasised as it leads a pathway to the future of the Nigerian markets, which will see the actualisation of a thriving financial market like other developed economies and markets. While acknowledging the susceptibility of the Nigerian financial markets and the broader economy to external shocks, it is envisaged that the combined strength and resilience of the Nigerian people and markets, coupled with the launch of the FMDQ ETD market, will propel the Nigerian financial markets towards a trajectory of growth and progress

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84th FX Futures Contract Matures and Settles on FMDQ Exchange

On Tuesday, June 27, 2023, the 84th FX Futures contract – NGUS JUN 28 2023, with a nominal value of \$174.08 billion, 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 \$61.00 billion; with a total of circa \$67.96 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.

Following the reforms in the Investors' & Exporters' FX Market that saw the CBN halting the quotation of offer rates for all FX Futures contracts, the CBN will resume the quotation of offer rates for FX Futures contracts with tenors between thirteen (13) to sixty (60) months, effective July 3, 2023, for a one (1) year period, following which the CBN will only provide offer rates for twenty-five (25) to sixty (60) months FX Futures contracts.

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

Update on Clearing and Settlement Activities

During the period under review, FMDQ Clear continued to offer bespoke risk management services to de-risk the Nigerian financial markets by eliminating inherent counterparty risks, delivering capital and cost efficiencies to its Members, and facilitating settlement finality across all cleared markets.

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	6,093	6,185	1.51
2	Value of Traded & Cleared Contracts (\$'bn)	65.30	66.54	1.89
3	Value of Open Contracts (\$'bn)	5.23	5.71	9.22
Settlement				
4	No. of Matured & Settled Contracts	5,739	5,778	0.68
5	Value of Matured & Settled Contracts (\$'bn)	60.07	60.82	1.25

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

S/N	Sovereign Fixed Income	April 2023	May 2023	Change (%)
1	Total Value of Trades Processed (₦'bn)	12,154.24	14,324.54	17.86
2	Value of Trades Settled (₦'bn)	9,661.80	12,754.62	32.01
3	Value of Unsettled Trades (₦'bn)	2,492.44	1,569.91	(37.01)

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

S/N	Non-Sovereign Fixed Income	April 2023	May 2023	Change (%)
1	Total Value of Trades Processed (₦'bn)	7.33	29.70	305.12
2	Value of Trades Settled (₦'bn)	6.33	29.69	369.04
3	Value of Unsettled Trades (₦'bn)	1.00	0.01	(99.00)

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

Update on Admitted Securities on FMDQ Depository

FMDQ Depository Limited (“**FMDQ Depository**”) is a Central Securities Depository registered by the Securities and Exchange Commission, Nigeria. FMDQ Depository is positioned to provide a safe depository for financial markets assets, as well as facilitate effective settlement of capital market transactions, thereby reducing operational risk and improving efficiency.

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

- United Capital PLC ₦10.82 billion Series 4 Commercial Paper (“CP”) under its ₦100.00 billion CP Issuance Programme
- UAC of Nigeria PLC ₦2.80 billion Series 3 CP under its ₦45.00 billion CP Issuance Programme
- Rand Merchant Bank Nigeria Limited ₦22.08 billion Series 5 and ₦6.05 billion Series 6 CPs under its ₦80.00 billion CP Issuance Programme
- Neveah Limited Issue of ₦0.17 billion Series 8 and ₦1.49 billion Series 9 CPs under its ₦10.00 billion CP Issuance Programme
- FBNQuest Merchant Bank Limited Issue of ₦1.86 billion Series 20, ₦7.95 billion Series 21 and ₦3.77 billion Series 22 CPs under its ₦100.00 billion CP Issuance Programme
- StructuredSecure Commodities SPV Limited ₦20.00 billion Private Company Bond under the ₦250.00 billion Bond Issuance Programme
- Jilnas Nigeria Limited ₦0.28 billion Series 2 (Tranche B) CP under its ₦5.00 billion CP Issuance Programme
- BOFT Infrastructure SPV Limited ₦30.00 billion Series 1 Fixed Rate Bond under its ₦30.00 Private Company Bond Issuance Programme
- Coceptive Services Limited ₦0.45 billion Series 1 CP under its ₦5.00 billion CP Issuance Programme
- CardinalStone Partners Limited ₦2.09 billion Series 1 and ₦3.90 billion Series 2 CPs under its ₦20.00 billion CP Issuance Programme
- FBNQuest Merchant Bank Limited ₦2.96 billion Series 23 and ₦3.22 billion Series 24 CPs under its ₦100.00 billion CP Issuance Programme

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

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FMDQ LISTINGS & QUOTATIONS

FMDQ Exchange Admits the Hillcrest Agro Nigeria Limited's ₦5.00 Billion Commercial Paper Programme on its Platform

In keeping with its commitment to develop the Nigerian debt markets, FMDQ Exchange continues to sustain its efforts in supporting issuers with tailored financing options to enable them achieve their strategic objectives and effectively position the Nigerian debt markets for growth. It is in this regard that FMDQ Exchange, through its Board Listings and Markets Committee, approved the registration of **HillCrest Agro Nigeria Limited ₦5.00 billion CP Programme** on its platform. The registration of this CP Programme reinforces the confidence demonstrated by issuers in FMDQ Exchange's platform, and the Nigerian debt markets as a viable marketplace to raise funds to meet funding requirements of various companies.

HillCrest Agro Nigeria Limited (the "**Company**") is an agro-processor that owns and operates a state-of-the-art rice processing mill located in Kwara State, Nigeria, producing up to two thousand (2,000) (50 kg) bags per day. The Company is currently one of the largest producers of rice in Nigeria following the recent increase in its milling capacity to 187,200 metric tonnes per annum. The CP Programme, which is sponsored by Comercio Partners Limited – a Registration Member (Quotations) of FMDQ Exchange, will avail the Issuer the opportunity to raise short-term finance from the Nigerian debt markets through CP issuances within the Programme limit.

In support of its mandate to deepen the Nigerian financial markets, the Exchange will continue to fulfil its market development mandate, by providing an efficient time-to-market and unique registration/listing/quotation services primed to ensure visibility for issuers.

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FMDQ Exchange Welcomes African Steel Mills (Nigeria) Limited Commercial Paper Programme on its Platform

As Nigeria's largest Exchange by market turnover, championing and supporting market-driven initiatives aimed at providing liquidity and facilitating growth and development in the Nigerian

financial markets, FMDQ Exchange, through its Board Listings and Markets Committee, approved the registration of **African Steel Mills (Nigeria) Limited ₦10.00 billion CP Programme** on its Platform. African Steel Mills (Nigeria) Limited (“**African Steel Mills**” or the “**Issuer**”), joins other corporate issuers on FMDQ Exchange’s platform this year, actively tapping the Nigerian debt markets to raise funds to meet working capital requirements.

African Steel Mills is a subsidiary of African Industries Group, which is a diversified global conglomerate that has evolved into the largest steel manufacturing company in Nigeria, and a producer of renewable energy. The CP Programme, which is sponsored by Stanbic IBTC Capital Limited (*Lead Sponsor*) and FCMB Capital Markets Limited (*Co-Sponsor*) – both Registration Member (Quotations) of FMDQ Exchange, will avail the Issuer the opportunity to raise short-term finance from the Nigerian debt markets through CP issuances within the Programme limit.

As the CP market continues to witness significant activity with diverse corporate institutions tapping the market as an efficient alternative to meeting their funding and liquidity requirements, FMDQ Exchange will continue to support the efficient allocation of capital to these corporate institutions by providing an efficient, transparent, and credible platform for capital formation and effective intermediation towards fostering economic growth and development.

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MyCredit Investments Limited Quotes ₦2.50 Billion Commercial Paper on FMDQ Exchange

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.

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 – May 2023)

Product Category	(₦' mm)	(\$' mm)
Foreign Exchange	14,597,462	31,590
Foreign Exchange Derivatives	11,986,989	25,939
Treasury Bills	6,892,882	14,916
OMO Bills	10,572,274	22,881
CBN Special Bills	6,928,835	14,995
FGN Bonds	10,310,644	22,316
Promissory Notes	1,909	4
Other Bonds*	100	0
Eurobond	48,593	105
Repurchase Agreements/Open Repos	17,961,263	38,865
Unsecured Placements/Takings	1,064,416	2,301
Money Market Derivatives	11,000	24
Commercial Papers	4,600	10
Sukuk Bonds	49,547	107.1
Total	80,430,514	174,053
No. of Business Days	99	99
Average Daily Turnover	812,429	1,758

Average YTD \$/₦ @ 463.23

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 @ June 7, 2023; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the Jan. – May 2023 period amounted to ₦80.43 trillion. Trading activities in the FX (FX Spot and FX Derivatives) market had the largest contribution, accounting for 33.05% of overall market turnover. Repurchase Agreements (Repos) accounted for 22.33%, whilst transactions in OMO Bills accounted for 13.15%. Bonds, T.bills, CBN Special Bills, Unsecured Placements & Takings, Money Market Derivatives and CPs accounted for 12.94%, 8.57%, 8.62%, 1.32%, 0.01% and 0.01% of total market turnover, respectively.

FMDQ Dealing Member (Banks) League Table (January - May 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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A Refresher on Derivatives and Exchange-Traded Derivatives – Series III

Introduction

The evolution of the financial markets landscape in Nigeria and Africa driven by global trends and emerging opportunities has led to the increasing demand for ETDs. A case in point is the remarkable growth in the ETD markets since the 2007/2008 Global Financial Crisis, during which OTC derivatives were plagued by significant and wide-scale counterparty defaults, that threatened financial system stability. This is evidenced by the growth in the number of ETDs (futures and options) contracts traded annually from 15.53 billion in 2007 to 84.76 billion in 2022. Similarly, according to the Futures Industry Association (FIA), the volume of ETDs traded in 2022 was 83.85 billion, which represented a 34.00% year-on-year increase.

Having unraveled the world of derivatives, understood their significance, and delved deeper into the realm of ETDs, in this final installment of our refresher learning series on derivatives and ETDs, we will focus on the trends in the global ETD markets and emerging opportunities in the Nigerian derivatives market.

Global Trends in ETD Markets

The global derivatives markets have experienced significant growth over the years and transactions volumes in ETD markets (mainly futures and options contracts traded on exchanges) reached an all-time high in 2019.

It's important to note that the growth of derivatives markets was not without challenges. One notable event that had a profound impact on global financial markets was the global financial meltdown in 2008. The crisis was triggered by the collapse of Lehman Brothers, a major investment bank, and it exposed the vulnerabilities within the financial system. Derivatives, particularly complex mortgage-backed securities, and collateralised debt obligations played a significant role in aggravating the crisis. These derivatives were tied to subprime mortgages, which were high-risk loans given to borrowers with poor credit histories. The widespread use of derivatives in packaging and selling these subprime mortgages rippled through the global financial system, causing a collapse in confidence, liquidity shortages, and massive market disruptions.

Since then, regulatory reforms such as the Dodd-Frank Act in the United States and global initiatives by organisations like the International Swaps and Derivatives Association have aimed to address these issues and enhance the stability and transparency of the derivatives market.

Despite the challenges posed by the financial crisis, derivatives continue to play a crucial role in global financial markets. They provide valuable hedging tools and contribute to overall market stability when used appropriately. The growth and development of ETD markets in recent years demonstrate the continued relevance and demand for these financial instruments.

Emerging Opportunities in the Derivatives Markets of Developing Economies

Globalisation and integration of financial markets present opportunities for the development of ETD markets in developing economies such as India, Brazil, South Africa, Nigeria, Indonesia, Mexico, Russia, etc. The ETD markets in these countries continue to drive the growth in the global ETD markets. Notably in 2019, the ETD market of National Stock Exchange of India overtook the Chicago Mercantile Exchange Group in terms of volumes of ETD contracts traded, while Brasil Bolsa Balcão S.A. in Brazil recorded the second largest growth in trading volumes with a 51% increase in ETD contracts traded.

Some of the key factors driving the activities in the ETD markets of developing economies include *inter alia*:

- a. **Economic Growth and Market Development:** Developing economies are experiencing rapid economic growth and increased integration into the global financial system. This growth creates a need for sophisticated risk management products, as market participants seek to protect themselves against market volatility and uncertainties. ETD markets provide these participants with viable products for hedging risks, thereby attracting increased activity and participation
- b. **Infrastructure Development:** Heavy investment in financial market infrastructures (FMIs), including exchanges, clearing houses, central counterparties, and automated trading platforms, have enabled the development of ETD markets, providing a robust framework for trading, settlement, and risk management services. With the necessary infrastructure in place, developing economies can attract both domestic and international investors, fostering liquidity and sustained growth in their derivatives markets, and economy at large
- c. **Regulatory Reforms and Investor Protection:** Regulatory reforms are being implemented to strengthen the financial systems, enhance transparency, ensure stability, and protect investors' interests in emerging/developing economies. These reforms often include the development of regulatory frameworks specific to ETD markets, ensuring fair and efficient trading, risk mitigation, and market integrity. As regulatory environments become more favourable and investors protection are strengthened, confidence in the derivatives market grows, attracting foreign investors and increased participation
- d. **Technological Advancements and Connectivity:** Technological advancements have been a major driver of the growth of ETD markets in developing economies. Improved connectivity, trading platforms, and electronic trading systems enable market participants to access ETD products seamlessly. Additionally, advancements in data analytics and algorithmic trading have enhanced

the efficiency in the ETD markets, attracting a broader range of participants and fostering market liquidity and product diversification

Consequently, over the years, ETD markets have continued to evolve with the emergence of technology and the proliferation of various contracts referencing diverse underlyings ranging from assets, securities, and indices to even atmospheric (weather) conditions such as average daily temperature or rainfall.

Opportunities in the Nigerian Derivatives Market

In Nigeria, the derivatives market gained momentum with the introduction of the Naira-settled OTC FX Futures in 2016 by the CBN, in collaboration with FMDQ Exchange. The OTC FX Futures, which became the first and only exchange-listed OTC derivatives contract in Nigeria, are traded on FMDQ Exchange between banks and the CBN and possess features of both OTC derivatives and ETDs.

With a strong commitment to develop the Nigerian financial markets, FMDQ Exchange is actively dedicated to launching its flagship ETD markets, which seek to introduce a bouquet of ETD products to the Nigerian financial markets. Following the enactment of relevant laws and regulations, inauguration of relevant FMIs, and increased awareness and knowledge regarding ETDs, FMDQ Exchange, in line with its long-recognised significance of establishing a viable ETD market as a pivotal progression towards harnessing the transformative potential of the Nigerian financial markets for the advancement of the economy, is in its final stage to launch an active ETD market.

Conclusion

The growth and evolution of ETDs in Nigeria and other developing economies highlight the increasing importance and demand for these financial instruments. While the global financial meltdown in 2008 exposed the risks associated with derivatives, regulatory reforms have been implemented to enhance market stability and transparency. The emerging opportunities in ETD markets of developing economies, driven by factors such as economic growth, capital flows, and improved legal environments, present avenues for risk management and investment. In Nigeria, the establishment of an active ETD market by FMDQ Exchange brings new prospects for market development and product diversification. As these markets continue to evolve, stakeholders and regulators must collaborate to ensure the responsible and effective use of derivatives, contributing to the growth and stability of the financial landscape.

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