



FMDQ SPOTLIGHT

NEWSLETTER EDITION 118 – AUGUST 2024





C O N T E N T S

- **New Stories**
 - FMDQ Group Concludes its 2024 Financial Literacy Summer Camp Programme, Empowering the Next Generation
 - 98th Cleared Naira-Settled Non-Deliverable Forwards Contract Matures and Settles on FMDQ Exchange
- **At a Glance**
 - Update on Clearing and Settlement Activities
 - Update on Admitted Securities on FMDQ Depository
- **FMDQ Listings & Quotations**
 - FMDQ Exchange Lists Flour Mills of Nigeria PLC ₦46.00 Billion Series 2 Bond on its Platform
 - FMDQ Exchange Admits TotalEnergies Marketing Nigeria PLC ₦30.00 billion Commercial Paper on its Platform
 - Cutix PLC Registers Maiden ₦3.00 billion Commercial Paper Programme on FMDQ Exchange
 - Axxela Funding 1 PLC Lists Series 1 Fixed Rate Bond on FMDQ Exchange
 - Marble Capital Limited Taps the Nigerian Debt Capital Market, Lists Halal Fixed Income Fund on FMDQ Exchange
- **FMDQ Turnover and Dealing Member (Banks) League Table**
 - FMDQ Turnover & Dealing Member (Banks)' League Table Report (January - July 2024)
 - FMDQ Dealing Member (Banks) League Table (January – July 2024)
- **FMDQ Learning**
 - The Mechanics of Credit Ratings: How Credit Ratings Work

FMDQ Group Concludes its 2024 Financial Literacy Summer Camp Programme, Empowering the Next Generation

In line with its dedication to enhancing financial literacy among the next generation, FMDQ Group PLC ("FMDQ Group"), through its flagship corporate social responsibility initiative, FMDQ Next Generation Financial Markets Empowerment Programme ("FMDQ-Next"), successfully concluded the 5th edition of its Summer Camp Programme ("the Programme"). This annual Programme, designed to foster financial markets education among students from primary and secondary schools, was hosted at FMDQ's business complex, Exchange Place, in Lagos from August 7 – 30, 2024.

The 2024 edition of the FMDQ-Next Summer Camp Programme witnessed the participation of one hundred and thirty (130) students from diverse backgrounds, ranging from primary (ages 8-10) to secondary school (ages 11-16). The fully funded Programme was conducted in two (2) separate streams, providing participants with essential knowledge of financial markets, including understanding savings, investments, and the roles of various financial markets participants. The young learners engaged in interactive exercises that brought financial concepts to life, while enjoying a tour of Exchange Place and its world-class Archives. Participants also had the unique opportunity to interact with the Chief Executive Officer of FMDQ Group, Mr. Bola Onadele. Koko, and other senior executives, gaining valuable insights into the world of finance.

The secondary school students enjoyed an immersive experience in currency trading, thanks to FMDQ Q-Hub's state-of-the-art trading simulation platform. Through this interactive system, students learned to manage virtual portfolios, mitigate risks, and make profitable trades in a real-time environment. The top three (3) students in this competition were rewarded with exciting prizes, including laptops, tablets, and the chance to secure future internship opportunities at FMDQ Group. Not to be left out, the primary school participants also received prizes for their excellent performance, with awards given to the top three (3) finalists in each stream. Beyond financial markets education, the Summer Camp Programme also offered an avenue for participants to express their creativity through talent shows featuring music and drama. Participants showcased their skills in singing, dancing, and playing musical instruments, highlighting the Programme's balanced focus on education and personal development.

The parents/guardians and participants were thrilled with the Programme's impact and shared their positive feedback. Mrs. Temilola Ademiluyi, who registered three (3) children for the Summer Camp, remarked, "This Programme has been an enriching experience for my children. I was impressed by how it combined financial markets education with fun activities, helping them grow in confidence while learning important life skills". Michael Iwuchukwu, a secondary school student from the College

of the Immaculate Conception in Enugu State, also shared his excitement, stating, “I learned so much about the financial markets, the roles of various market players, and the functions of different participants. Additionally, I gained an understanding of key financial instruments such as bonds, stocks, commodities, treasury bills, and derivatives, as well as the importance of savings and investments. It was an unforgettable experience, as I made new friends from diverse backgrounds and age groups, and I will cherish those moments forever”.



Also commenting on the Programme, Ms. Kaodi Ugoji, Group Chief Operating Officer of FMDQ Group, said, “We are immensely proud of the enthusiasm and commitment displayed by all the students throughout the 2024 Summer Camp Programme. Our goal of blending theoretical learning with hands-on experience was met, as the participants were given real exposure to financial markets. We are grateful to the amazing students and their parents/guardians for their trust, and we wish the participants the best in their future academic and personal endeavours”.

As the FMDQ-Next Summer Camp Programme wraps up another successful year, FMDQ Group remains committed to empowering young minds with the tools and knowledge needed for a financially literate future. Since FMDQ-Next launched in July 2018, over one thousand, one hundred and eighty-two (1,182) participants, from primary students, through to fresh graduates, have been

positively impacted through five (5) Summer Camps; seven (7) Excursions; eight (8) Virtual Financial Literacy Sessions; sixteen (16) Trading Challenges; and thirteen (13) Internships with FMDQ Group. The FMDQ-Next initiative is an expression of FMDQ Group's ongoing commitment to continually implement innovative initiatives that ensure a sustainable financial future for the next generation.



[Back to Top](#)

98th Cleared Naira-Settled Non-Deliverable Forwards Contract Matures and Settles on FMDQ Exchange

On Wednesday, August 28, 2024, the 98th Cleared Naira-Settled Non-Deliverable Forwards (“**Cleared USD/NGN NDFs**”) contract – NGUS AUG 28 2024, with a nominal value of \$0.02 billion, matured and settled on FMDQ Securities Exchange Limited (“**FMDQ Exchange**” or the “**Exchange**”). This brings the total value of matured FX Futures contracts on the Exchange, since its inception of the market in June 2016, to approximately \$67.68 billion, with a total of circa \$67.79 billion so far traded.

The matured contract was valued for settlement against the NAFEX (Nigerian Autonomous Foreign Exchange Fixing) using the FMDQ Exchange reference Spot FX rate published the same day. The associated clearing and settlement activities were carried out by FMDQ Clear Limited (“**FMDQ Clear**”) accordingly.

Additionally, FMDQ Exchange introduced a new contract, NGUS AUG 29 2029, with a rate of \$/₦4,927.70, which replaces the matured contract. The Exchange has also updated quotes for the existing 1 to 60-month contracts.

For more information on the Cleared USD/NGN NDF contracts, please visit our website at www.fmdqgroup.com/exchange/market-products/derivatives/ or contact our Derivatives Business Group at dbg@fmdqgroup.com.

[Back to Top](#)

Update on Clearing and Settlement Activities

FMDQ Clear, Nigeria's foremost Central Counterparty, continues to drive efficiency in its operations, delivering value to the Nigerian financial markets and making it seamless for investors to clear and manage their risks effectively.

The tables below provide an overview of the clearing and settlement activities across the derivatives (currency futures) and fixed income markets. For more information on FMDQ Clear, please click [here](#).

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

S/N	Currency Futures	June 2024	July 2024	Change (%)
Clearing				
1	No. of Cleared Contracts	6,255	6,255	N/A
2	Value of Cleared Contracts (\$'bn)	67.79	67.79	N/A
3	Value of Open Contracts (\$'bn)	0.17	0.13	(23.53)
Settlement				
4	No. of Matured & Settled Contracts	6,236	6,237	0.02
5	Value of Matured & Settled Contracts (\$'bn)	67.62	67.66	0.06

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

S/N	Sovereign Fixed Income	June 2024	July 2024	Change (%)
1	Total Value of Trades Processed (₦'bn)	14,730.68	12,400.26	(15.82)
2	Value of Trades Settled (₦'bn)	12,960.71	11,309.52	(14.60)
3	Value of Unsettled Trades (₦'bn)	1,769.97	1,090.74	(38.38)

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

S/N	Non-Sovereign Fixed Income	June 2024	July 2024	Change (%)
1	Total Value of Trades Processed (₦'bn)	0.71	0.99	39.44
2	Value of Trades Settled (₦'bn)	0.71	0.99	39.44
3	Value of Unsettled Trades (₦'bn)	0.00	0.00	N/A

Update on Admitted Securities on FMDQ Depository

FMDQ Depository Limited (“**FMDQ Depository**”), registered by the Securities Exchange Commission (SEC), Nigeria, is positioned to provide a secure depository for financial market assets and facilitate seamless settlement of capital market transactions. At the core of FMDQ Group's ethos lies innovation, ensuring smooth market-making for all securities held on FMDQ's Platform through efficient and integrated linkages among FMDQ Exchange, FMDQ Clear and FMDQ Depository.

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

- SKLD Integrated Services Limited ₦0.45 billion Series 10 and ₦0.21 billion Series 11 Commercial Papers (“CPs”) under its ₦3.50 billion CP Issuance Programme
- Zeenab Foods Limited ₦1.60 billion Series 1 Tranche A and ₦1.45 billion Series 1 Tranche B CPs under its ₦20.00 billion CP Issuance Programme

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

[Back to Top](#)



FMDQ LISTINGS & QUOTATIONS

FMDQ Exchange Lists Flour Mills of Nigeria PLC ₦46.00 Billion Series 2 Bond on its Platform

FMDQ Exchange reaffirms its role as a pivotal institution in the Nigerian financial markets by offering a transparent and efficient platform for the issuance and trading of debt securities. In furtherance of its mission to boost liquidity and provide alternative funding solutions for corporates, the Exchange, through its Board Listings and Markets Committee, has approved the listing of the **Flour Mills of Nigeria PLC ₦46.00 billion Series 2 Fixed Rate Bond under its ₦200.00 billion Bond Issuance Programme**. This initiative underscores the Exchange's commitment to driving market growth and fostering sustainable economic development.

Flour Mills of Nigeria PLC ("**Flour Mills**" or the "**Issuer**") is a Nigerian food and agro-allied company, with a vertically integrated supply chain of food, agro-allied, logistics and support services businesses. The Issuer is involved in the production of a wide range of food products, including flour, pasta, noodles, and ball foods. The proceeds from this bond, which is sponsored by FCMB Capital Markets Limited (*Lead Sponsor*), Chapel Hill Denham Advisory Limited, CardinalStone Partners Limited, Coronation Merchant Bank Limited, FBNQuest Merchant Bank Limited, Stanbic IBTC Capital Limited and Quantum Zenith Capital & Investments Limited (*Co-Sponsors*) – all Registration Member (Listings) of FMDQ Exchange, will be applied by the Issuer for its general corporate purposes.

Speaking on the successful issuance of the bond, the Group Chief Finance Officer, Flour Mills of Nigeria PLC, Mr. Anders Kristiansson, stated "Flour Mills of Nigeria PLC is delighted by the successful issuance and listing of the ₦46.00 billion series 2 bond under our ₦200.00 billion bond issuance programme. We extend our deepest appreciation to the Nigerian investor community for the positive reception of the transaction as reflected in the 100.30% oversubscription to the issue. The strong investor support is a testament to the confidence and trust in Flour Mill's strategic vision and operational excellence. We also want to thank FCMB Capital Markets and the rest of our advisers for the guidance and coordination provided in ensuring the successful completion of said transaction. Flour Mills is one of Nigeria's largest and oldest integrated food business, with a broad product portfolio and a robust pan-Nigerian distribution network. The Company has the largest food basket offering of any Nigerian FMCG company with over twenty-eight (28) consumer products. Its core strength lies in its food business, which is the highest contributor to revenue. As an organisation with a Pan-African outlook, Flour Mills aims to continue expanding its current businesses while also delivering innovative solutions that drive growth and create value. This latest series 2 bond issuance is yet another step towards enhancing operational efficiency through the diversification of sources of medium to long-term funding with the goal of reducing average borrowing cost thereby unlocking greater value for our stakeholders."

Also, the Managing Director, FCMB Capital Markets Limited, Mr. Ikechukwu Omeruah, stated "FCMB Capital Markets Limited is quite pleased to have acted as the Lead Issuing House and Sponsor to the ₦46.00 billion series 2 5-Year callable bond issuance by Flour Mills. Even more gratifying is the opportunity to deepen our partnership with a lynchpin of food security in the Nigerian economy in line with our commitment to fostering inclusive and sustainable growth in the communities we serve. FCMB Capital Markets Limited led a team of five issuing houses in executing this transaction, and was pivotal in structuring, coordinating, and successfully arranging the debt sought. We thank Flour Mills for trusting FCMB Capital Markets and the Joint Issuing Houses in seeing the issuance to a successful conclusion."

In its continuous pursuit of financial stability and economic advancement, FMDQ Exchange remains committed to driving strategic innovations across its platforms. By providing exceptional services and fostering a seamless experience for market participants, the Exchange solidifies its role as a key catalyst for growth in Nigeria's financial markets, propelling transformative progress in the capital market landscape.

[Back to Top](#)

FMDQ Exchange Admits TotalEnergies Marketing Nigeria PLC ₦30.00 billion Commercial Paper on its Platform

FMDQ Exchange, a wholly owned subsidiary of FMDQ Group, is Nigeria's largest securities exchange by market turnover, providing a world-class platform for the registration, listing, quotation and trading of financial instruments. With an unwavering commitment to transparency, efficiency, and innovation, FMDQ Exchange is pivotal in propelling Nigeria's financial markets and fostering economic growth. In line with this mission, the Exchange proudly announces the approval of **TotalEnergies Marketing Nigeria PLC ₦30.00 billion CP Issuance Programme** for registration on its platform.

TotalEnergies Marketing Nigeria PLC (the "Issuer") is a subsidiary of TotalEnergies, a global energy company with operation in over one hundred and thirty (130) countries. The Issuer has a strong presence in Nigeria's downstream oil and gas sector, with over fifty (50) years of operations and a network of more than five hundred and seventy (570) service stations. This CP Programme, sponsored by Stanbic IBTC Capital Limited, a Registration Member (Quotations) of the Exchange, enables the Issuer to efficiently access short-term financing from the Nigerian debt capital markets, within its CP Programme limit.

FMDQ Exchange remains committed to advancing market development and financial stability within the Nigerian financial markets, supporting growth and resilience of the Nigerian debt markets through

world-class standards and transparent practices, ultimately fostering sustainable economic development.

Cutix PLC Registers Maiden ₦3.00 billion Commercial Paper Programme on FMDQ Exchange

Cutix PLC (“**Cutix**” or the “**Issuer**”), having successfully met the CP Quotation requirements of FMDQ Exchange, has received approval from the Board Listings and Markets Committee of the Exchange, to register its ₦3.00 billion CP Programme on the Exchange’s platform. This milestone demonstrates the Nigerian CP market’s capacity to offer new issuers valuable opportunities to expand their businesses, thereby restoring essential investor confidence and contributing to the overall growth of the Nigerian economy.

Cutix, a leading indigenous producer of industrial cables and connectivity products for house wiring, operates through a network of branches across Nigeria. This CP Programme, sponsored by Lighthouse Capital Limited, a Registration Member (Quotations) of the Exchange, strategically positions the Issuer to efficiently raise short-term financing from the Nigerian debt markets through CP issues within its Programme limit.

As more corporate entities turn to the CP market to meet their short-term funding and liquidity needs, FMDQ Exchange remains committed to promoting transparency, governance, integrity, and efficiency within the Nigerian CP market and the broader debt markets. Through the strategic implementation of key market development initiatives, FMDQ Exchange is committed to fostering a globally competitive financial market and supporting the growth of a robust Nigerian economy.

[Back to Top](#)

Axxela Funding 1 PLC Lists Series 1 Fixed Rate Bond on FMDQ Exchange

The Nigerian debt markets play an important role in the efficient mobilisation and allocation of resources in the economy. Despite the impact of current times, the Nigerian CP markets have continued to support corporates looking to expand their business operations effectively. FMDQ Exchange, as a market organiser of the Nigerian debt markets, amongst others, has consistently provided stakeholders in the markets with a credible and robust platform for capital access. In alignment with its strategic objective, the Exchange, through its Board Listings and Markets Committee, has approved the listing of the **Axxela Funding 1 PLC ₦16.40 billion Series 1 Senior**

Unsecured Fixed Rate Bond under its ₦50.00 billion Multi-Instrument Issuance Programme, on its Platform.

Axxela Funding 1 PLC is a special purpose vehicle (SPV) incorporated by Axxela Limited to raise funds through the issuance of debt securities in the domestic capital market. Axxela Limited, owned by Helios Investment Partners, is a natural gas shipping company on the West African Gas Pipeline, providing unique energy solutions with presence in Nigeria and gas export operations in neighbouring West African countries. The proceeds of the Axxela bond, sponsored by a consortium of reputable firms including Stanbic IBTC Capital Limited (*Lead Sponsor*), Afrinvest Capital Limited, Chapel Hill Denham Advisory Limited, FBNQuest Merchant Bank Limited, FCMB Capital Markets Limited, Rand Merchant Bank Nigeria Limited, United Capital PLC, Vetiva Advisory Services Limited (*Co-Sponsors*) - all Registration Member (Listings) of the Exchange, will be used by the Issuer to finance the construction of Sagamu Pipeline, Backbone Gas Pipeline, Transmission Pipeline System, amongst other projects specified within its pricing supplement.

The Axxela bond, by its listing on the FMDQ Exchange, shall be admitted onto the FMDQ Daily Quotations List, thus enhancing the much-needed transparency for investors and providing a credible basis for daily portfolio valuation. Additionally, the listing will significantly enhance the issuer's corporate profile and provide extensive global visibility through the exchange's website and systems, paving the way for further opportunities in the Nigerian debt markets.

Marble Capital Limited Debuts Halal Fixed Income Fund on FMDQ Exchange

FMDQ Exchange remains at the forefront of fostering innovation and resilience within the Nigerian financial markets. By continually enhancing its platform and services, the Exchange ensures that market participants have access to a dynamic and efficient environment for capital raising and investment activities. In line with this objective, the Board Listings and Markets Committee of the Exchange, has given approval for the listing of the **Marble Capital Limited 5.00 million units of ₦100.00 each of the Halal Fixed Income Fund**, on the Exchange, reinforcing the Exchange's role as a catalyst for economic growth and market integrity.

Marble Capital Limited ("**Marble Capital**" or the "**Issuer**") a leading ethical and Shari'ah-compliant Fund Manager in Nigeria, is poised to tap into the crystal of business opportunities offered by the Islamic finance market. Marble Capital also provides advisory services for clients in the realm of green, ethical, and sustainable investment. With the listing of this fund, sponsored by Marble Advisory Limited, a Registration Member (Listings) of the Exchange, Marble Capital can access the growing global market of Islamic finance. This market offers the potential for significant capital inflow, and the Issuer can also benefit from a wide array of investors who prefer ethical and socially responsible investment options.

As the Nigerian economy grows and evolves, FMDQ Exchange remains dedicated to building a resilient and inclusive financial ecosystem. With an extensive range of market services and products, the Exchange is committed to enhancing market liquidity, transparency, and accessibility, enabling corporates and governments to confidently achieve their funding and investment objectives.

Other securities admitted to the Exchange platform in August 2024, include:

- MyCredit Investments Limited ₦1.69 billion Series 2 CP under its ₦10.00 billion CP Issuance Programme
- Zeenab Foods Limited ₦1.60 billion Series 1 Tranche A and ₦1.45 billion Series 1 Tranche B CPs under its ₦20.00 billion CP Programme
- Fidson Healthcare PLC ₦4.57 billion Series 11 CP under its ₦25.00 billion CP Programme
- SKLD Integrated Services Limited ₦0.45 billion Series 10 and ₦0.21 billion Series 11 CPs under its ₦3.50 billion CP Programme
- Infinity Microfinance Bank Limited ₦0.36 billion Series 3 CP under its ₦5.00 billion CP Programme
- Nosak Distilleries Limited ₦2.51 billion Series 4 Tranche B CP under its ₦20.00 billion CP Programme

FMDQ Group is Africa's first vertically integrated FMI group, strategically positioned to provide registration, listing, quotation and noting services; integrated trading platform, clearing & central counterparty, and settlement services for financial markets 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, FMDQ Depository 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.

[Back to Top](#)

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 in the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), OMO Bills, Central Bank of Nigeria (“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 Exchange 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 – July 2024)

Product Category	(₦'mm)	(\$'mm)
Foreign Exchange	85,079,115	60,195
Foreign Exchange Derivatives	25,268,419	18,761
Treasury Bills	24,537,408	17,885
OMO Bills	22,423,804	16,259
CBN Special Bills	2,929,215	2,337
FGN Bonds	13,709,624	10,273
Promissory Notes	16,728	15
Other Bonds*	8,318	7
Eurobond	345,500	245
Repurchase Agreements/Open Repos	63,815,676	45,977
Unsecured Placements/Takings	358,259	267
Money Market Derivatives	-	-
Commercial Papers	-	-
Sukuk Bonds	438,544	370
Total	238,930,610	172,590
No. of Business Days	140	140
Average Daily Turnover	1,706,647	1,233

Average Year-to-Date (YTD) \$/₦ @ 1,384.38

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) or CBN

Source: FMDQ Data Portal as @ August 5, 2024; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for Jan. – Jul. 2024 period amounted to ₦238.93 trillion. Trading activities in the FX (Spot FX and FX Derivatives) market contributed the largest share, accounting for 45.75% of overall market turnover. Repurchase Agreements (Repos) accounted for 26.64%, whilst transactions in OMO Bills accounted for 9.42%. Bonds, T.bills, CBN Special Bills, Promissory Notes and Unsecured Placements & Takings accounted for 6.31%, 10.37%, 1.35%, 0.01% and 0.15% of overall market turnover.

FMDQ Dealing Member (Banks) League Table (January – July 2024)

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	First Bank of Nigeria Limited
4	Access Bank PLC
5	Standard Chartered Bank Nigeria Limited
6	Citibank Nigeria Limited
7	Wema Bank PLC
8	Zenith Bank PLC
9	First City Monument Bank Limited
10	Sterling Bank PLC

During the review period, Stanbic IBTC Bank PLC, United Bank for Africa PLC, and First Bank of Nigeria Limited ranked 1st, 2nd and 3rd respectively, based on value traded. The top ten (10) Dealing Member (Banks) collectively accounted for 70.37% (₦168.07 trillion) of the overall turnover, while the top three (3) accounted for 54.77% (₦92.06 trillion) of the overall turnover of trades in the secondary market.

[Back to Top](#)

The Mechanics of Credit Ratings: How Credit Ratings Work

In the first article of this series, we introduced the concept of credit ratings, covering its definition, the role of credit rating agencies, the two (2) main categories of credit ratings, and the benefits and limitations of these ratings. ([Click here to view previous article](#))

This current article delves into the processes and methodologies used by credit rating agencies to assess the creditworthiness of issuers and specific debt instruments. It concludes with an overview of the different ratings of major global rating agencies.

The Credit Rating Process

For most corporate and sovereign debt obligations, at least two (2) credit rating agencies assess the potential risk of default for each debt obligation or issuer. These agencies independently evaluate credit risk using a forward-looking approach starting with a formal rating request, involving rigorous analysis based on a defined **Credit Rating Methodology** and culminates in the assignment of a credit rating symbol. The process is outlined below:

S/N	Step	Description
1.	Rating Request and Agreement	<ul style="list-style-type: none"> The process begins with the issuer (corporate or sovereign) requesting a credit rating. Both parties agree on the terms, including the debt instruments to be rated and the essential financial documents. Subsequently, a formal agreement is then signed, establishing the framework for the rating process
2.	Assessment and Rating Assignment	<ul style="list-style-type: none"> Following the agreement, the rating agency collects comprehensive financial and non-financial data from the issuer. This data is used to analyse the issuer's financial health, debt repayment ability, industry position, and operating environment
3.	Rating Committee Review	<ul style="list-style-type: none"> The analysis results are presented to a committee of senior analysts and rating experts. The committee reviews the findings, deliberates, and may request further information before assigning a rating. The rating is expressed in alphabetic or alphanumeric symbols to reflect the issuer's creditworthiness
4.	Publication and Monitoring	<ul style="list-style-type: none"> The final rating is published and publicly available. The rating agency continuously monitors the issuer, updating the rating or issuing outlooks as necessary based on changes affecting the issuer's debt repayment ability

Understanding Credit Rating Methodologies

Debt investors face credit risk— the risk of a borrower defaulting on promised interest or principal payments. Credit risk represents an investor’s potential economic loss if the borrower fails to meet its obligations, leading to losses and underperformance.

Rating agencies use well-established methodologies to assess credit risk during rating assignments. These methodologies evaluate an issuer's creditworthiness and ability to issue new debt, considering both borrower characteristics and broader economic conditions. Credit risk is dynamic throughout the life of a contract and is assessed by analysing both quantitative and qualitative factors, often guided by the “Cs” of credit analysis, as detailed below:

Quantitative Factors			
S/N	Factors	Description	Typical Data Source
1.	Capacity	<ul style="list-style-type: none"> ▪ The ability of the borrower to make debt payments on time 	<ul style="list-style-type: none"> ▪ <i>Financial Statements</i>
2.	Capital	<ul style="list-style-type: none"> ▪ Other company resources available to reduce reliance on debt 	
3.	Currency	<ul style="list-style-type: none"> ▪ Exposure to foreign exchange risk affecting issuers whose cash flows are impacted by exchange rate changes or who borrow in a currency outside their jurisdiction 	
Qualitative Factors			
1.	Collateral	<ul style="list-style-type: none"> ▪ The quality and value of the assets supporting the issuer’s debt 	<ul style="list-style-type: none"> ▪ <i>Historical Company performance</i>
2.	Covenants	<ul style="list-style-type: none"> ▪ Legal terms of debt agreements that an issuer must comply with 	<ul style="list-style-type: none"> ▪ <i>Credit Agreements and Relationships</i>
3.	Character	<ul style="list-style-type: none"> ▪ The quality of management and the willingness to repay indebtedness 	<ul style="list-style-type: none"> ▪ <i>Reputation of Current Management</i>
4.	Conditions	<ul style="list-style-type: none"> ▪ The general economic, competitive, and business environment that may affect debt servicing or refinancing 	<ul style="list-style-type: none"> ▪ <i>Management Discussion & Analysis</i>
5.	Country	<ul style="list-style-type: none"> ▪ The geopolitical environment, legal and political system in a jurisdiction affecting debt repayment 	<ul style="list-style-type: none"> ▪ <i>Industry Reports</i> ▪ <i>Market Analysis</i> ▪ <i>Political Risk Analysis</i>

Understanding Credit Rating Scales

There are three (3) major global credit rating agencies—Moody’s Investors Service ("**Moody’s**"), Standard & Poor’s ("**S&P**"), and Fitch Ratings ("**Fitch**"). They use similar symbol-based ratings to assess the default risk of debt issues and the potential loss for investors. The table below compares their rating scales, ranked from lowest to highest credit risk:

Category	Fitch	S&P	Moody’s	Rating Grade Description
Investment Grade	AAA	AAA	Aaa	Highest credit quality with lowest level of credit risk
	AA	AA	Aa	Very high credit quality with very low level of credit risk
	A	A	A	High credit quality with low level of credit risk
	BBB	BBB	Baa	Good credit quality with moderate level of credit risk
Non-Investment Grade (Speculative)	BB	BB	Ba	Speculative with substantial credit risk
	B	B	B	Highly speculative with high credit risk
	CCC	CCC	Caa	Substantial credit risk with default as a real possibility
	CC	CC	Ca	Very high levels of credit risk with default either occurring or about to occur
	C	C	Ca	Default or default-like process has begun
	D	D	D	Default: issuer is in default on all obligations

Conclusion

Understanding the mechanics of credit ratings clarifies how these assessments are formulated and their influence on financial markets. The methodologies and factors used by rating agencies provide a comprehensive view of an issuer’s creditworthiness. While these ratings offer valuable insights, it’s important to recognise their limitations and the potential impact of changing financial conditions, which can significantly alter credit ratings. In the final article of this series, we will explore strategies for improving credit ratings and examine their broader implications for financial markets and institutions.

[Back to Top](#)

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