FMDQ SPOTLIGHT

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FMDQ

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FMDQ Group PLC Becomes a Participating Member of the United Nations Global Compact

In line with its commitment to transforming the Nigerian financial markets and fostering sustained growth and development in the nation, FMDQ Group PLC ("**FMDQ Group**") is pleased to announce its approval as a Participating Member of the United Nations Global Compact ("**UNGC**"). This significant milestone underscores FMDQ Group's ongoing efforts to integrate sustainability as a core component of its organisation culture and business strategy.

As a sustainability-focused financial market infrastructure (FMI) group with strong commitment to its four (4) Sustainability Pillars – Business, People, Community, and Environment – FMDQ Group recognises the need for Nigeria to maintain a leading position in global sustainable finance initiatives. Hence, its dedication to championing sustainable finance in the Nigerian financial markets is crucial in aligning FMDQ Group's activities with sustainability principles.

The UNGC, launched by the United Nations in 2000, is a voluntary initiative encouraging businesses worldwide to adopt sustainable and socially responsible policies and practices. It comprises ten (10) principles (the "**Principles**") in the areas of human rights, labour rights, the environment, and anti-corruption. Participating organisations are encouraged to align their strategies and operations with the Principles and take actions that advance societal goals. The UNGC is the world's largest corporate sustainability initiative, with over twenty-three thousand (23,000) signatories in one hundred and seventy (170) countries, including over one hundred and thirty (130) in Nigeria. By joining the UNGC, FMDQ Group reaffirms its commitment to these Principles and advancing broader societal goals.

Expressing enthusiasm on the membership acceptance, Mr. Bola Onadele. Koko, Chief Executive Officer, FMDQ Group, stated, "We are proud to become a participating Member of the world's largest corporate sustainability initiative, the UNGC. This membership represents our unwavering commitment to sustainability and responsible business practices. Through this association, we aim to collaborate with other global organisations to promote the achievement of the United Nations Sustainable Development Goals". As a participating Member of the UNGC, FMDQ Group will benefit from access to global best practices in sustainability and corporate responsibility, and the opportunity to connect with a vast network of businesses and stakeholders dedicated to global sustainable practices.

96th FX Futures Contract Matures and Settles on FMDQ Exchange

On Wednesday, June 26, 2024, the 96th FX Futures contract – NGUS JUN 26 2024, with a nominal value of $0.12 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 $67.62 billion, with a total of circa $67.79 billion so far traded.

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

Additionally, FMDQ Exchange introduced a new contract, NGUS JUN 27 2029, with a rate of $/₦3,870.55, replacing the matured contract. The Exchange has updated quotes for the existing 1 to 60-month contracts. The contracts quotes are published daily on FMDQ's website at www.fmdqgroup.com.

Click here to view Open Cleared Naira-Settled Non-Deliverable Forwards Contracts

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Update on Clearing and Settlement Activities

Following the approval received by the Securities and Exchange Commission (**SEC**), Nigeria, to function as a central counterparty, FMDQ Clear plays a crucial role in the Nigerian financial markets by novating Central Counterparty-eligible products traded on FMDQ Exchange.

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	April 2024	May 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)**	1.59	0.29	(81.76)
Settlement				
4	No. of Matured & Settled Contracts	6,171	6,227	0.91
5	Value of Matured & Settled Contracts **($'bn)**	66.20	67.50	1.96

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

S/N	Sovereign Fixed Income	April 2024	May 2024	Change (%)
1	Total Value of Trades Processed **(₦'bn)**	16,676.55	15,257.40	(8.50)
2	Value of Trades Settled **(₦'bn)**	13,055.78	13,152.74	0.70
3	Value of Unsettled Trades **(₦'bn)**	3,620.77	2,104.66	(41.90)

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

S/N	Non-Sovereign Fixed Income	April 2024	May 2024	Change (%)
1	Total Value of Trades Processed **(₦'bn)**	6.56	2.19	(66.60)
2	Value of Trades Settled **(₦'bn)**	6.56	2.19	(66.60)
3	Value of Unsettled Trades **(₦'bn)**	0.00	0.00	N/A

Update on Admitted Securities on FMDQ Depository

FMDQ Depository Limited ("**FMDQ Depository**"), the choice securities depository for the Nigerian capital markets, consistently harnesses its collaborative partnerships with stakeholders to deliver forward-thinking, innovative, and streamlined depository services, which play a crucial role in boosting the overall efficiency and effectiveness of the capital market ecosystem.

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

- Axxela Funding 1 PLC ₦16.40 billion Series I Fixed Rate Bond under its ₦50.00 billion Multi-Instrument Issuance Programme
- Lagos Free Zone Company ₦16.56 billion Series 7 Commercial Paper ("CP") under its ₦30.00 billion CP Issuance Programme
- CapitalSage Technology Limited ₦2.50 billion Series 9 and ₦3.24 billion Series 10 CPs under its ₦15.00 billion CP Issuance Programme

For more information on FMDQ Depository service offerings, please click here.

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FMDQ Exchange Welcomes the Asiko Power Limited Commercial Paper Programme to its Platform

FMDQ Exchange continues to make significant strides to enhance the Nigerian debt markets, solidifying its position as a leading financial market infrastructure in Nigeria. The Exchange's dedication to innovation and strategic partnerships has driven substantial growth, enabling issuers and investors to access diverse funding options and investment opportunities. In this regard, FMDQ Exchange, through its Board Listings and Markets Committee, approved the **registration of the Asiko Power Limited ₦2.50 billion CP Programme** on the Exchange's platform on June 3, 2024.

Asiko Power Limited ("**Asiko Power**"), a subsidiary of Asiko Energy Holdings Limited, is a leading player in the Nigerian energy sector, offering clean, reliable, and sustainable power solutions, including developing gas-to-power, gas-to-cooling and gas-to-heating projects. The registration of this CP Programme, sponsored by Stanbic IBTC Capital Limited, a Registration Member (Quotations) of FMDQ Exchange, strategically positions Asiko Power to raise short-term finance from the Nigerian debt markets easily and quickly at a time it determines suitable, through CP issues within the CP Programme limit.

FMDQ Exchange remains steadfast in its commitment to improving the Nigerian debt markets. Through continuous engagement with market participants, innovative product offerings, and the enhancement of its market infrastructure, FMDQ Exchange is dedicated to creating an enabling environment for issuers and investors alike. This ongoing effort underscores the Exchange's vision of transforming the Nigerian financial markets, promoting economic development, and driving inclusive prosperity for all stakeholders.

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Adozillion Homes and Realty Limited Makes Successful Debut on FMDQ Exchange with Commercial Paper Programme

Committed to the continuous development of the Nigerian financial markets and in collaboration with market stakeholders, FMDQ Exchange, a wholly owned subsidiary of FMDQ Group PLC ("**FMDQ Group**"), has, through its Board Listings, Markets and Technology Committee, approved the

registration of Adozillion Homes and Realty Limited ₦2.50 billion CP Issuance Programme on its Platform on June 11, 2024.

Adozillion Homes and Realty Limited ("**Adozillion**") is a real estate development company known for its expertise in delivering a diverse range of profitable residential and commercial properties. The company is known for its innovative approach and adherence to modern standards, catering to elite clients and consistently providing property ownership and investment opportunities. This CP programme, sponsored by Pathway Advisors Limited – a Registration Member (Quotations) of the Exchange, enables Adozillion to efficiently raise short-term finance from the Nigerian debt markets, through CP issues within the approved CP Programme limit.

With diverse corporate entities utilising the Nigerian CP market as a viable solution for their funding and liquidity requirements, the market continues to witness significant activity. In response, FMDQ Exchange remains dedicated to supporting the efficient allocation of capital to these corporate institutions by offering a transparent, reliable, and efficient platform for efficient and effective capital formation. This unwavering commitment fosters economic growth and development, ensuring corporate entities can access the necessary resources to thrive and contribute to a robust and dynamic economy.

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FSDH Merchant Bank Limited Issues Additional Commercial Paper Programme on FMDQ Exchange Platform

In line with its strategic objectives to support institutional growth and stimulate continuous development of the economy at large, FMDQ Exchange has demonstrated its commitment to aligning the Nigerian debt markets to international standards. This is achieved through the promotion and provision of a world-class quotation service, availing issuers and investors the much-needed global visibility, confidence, and protection in the markets. In furtherance of its commitment, the Exchange, through its Board Listings and Markets Committee, approved the **registration of the FSDH Merchant Bank Limited ₦40.00 billion CP Issuance Programme** on its Platform on June 10, 2024.

FSDH Merchant Bank Limited ("**FSDH Merchant Bank**") is Nigeria's leading merchant banking group, offering a broad range of financial services to create long-term sustainable wealth for individuals and corporates. Its services include corporate banking, business banking, prestige banking, treasury, and international trade. This CP programme, sponsored by FSDH Capital Limited – a Registration Member (Quotations) of the Exchange, strategically positions FSDH Merchant Bank to raise short-term finance from the Nigerian CP market at any suitable time through CP issues within the approved Programme limit.

As the largest securities exchange in Nigeria by market turnover, FMDQ Exchange is dedicated to providing a liquid, transparent and efficient market geared towards supporting the aspirations of corporates, such as FSDH Merchant Bank, in unlocking the required capital to bridge the funding gap. The Exchange will consistently support issuers with tailored financing options, enabling them to achieve their strategic objectives and effectively position the Nigerian debt markets for growth.

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FMDQ Exchange Admits VFD Group PLC Series 3 Commercial Paper on its Platform

FMDQ Exchange plays a crucial role in facilitating access to capital for corporate institutions through its streamlined Securities Admission Service. This service supports corporates in exploring alternative financing options by utilising the Nigerian debt markets to sustain their business activities and address capital shortfalls. In this regard, the Exchange, through its Board Listings and Markets Committee, approved the **quotation of the VFD Group PLC ₦6.26 billion Series 3 CP under its ₦20.00 billion CP Issuance Programme** on its Platform on June 3, 2024.

VFD Group PLC ("**VFD Group**") is a financial services firm that catering to the investment needs of retail and institutional investors across various sectors, including financial services, asset management, real estate, and fintech. The funds generated from the VFD Group Series 3 CP, sponsored by a consortium of reputable firms including Kairos Capital Limited (*Lead Sponsor*), Afrinvest Capital Limited, Comercio Partners Capital Limited, FCMB Capital Markets Limited, Emerging Africa Capital Advisory Limited, and Quantum Zenith Capital & Investments Limited (*Co-Sponsors*), all Registration Member (Quotations) of FMDQ Exchange, will be used by the Issuer to support its short-term funding requirements.

The timely admission of this CP issue, and all securities on the FMDQ Exchange, demonstrates the efficiency and reliability of the Exchange's Securities Admission Service. This CP, like all other securities listed and quoted on the Exchange's platform, will benefit from global visibility through the Exchange's website and systems, transparency through its inclusion in the FMDQ Daily Quotations List, governance, and continuous information disclosure to protect investors' interest, credible price formation, and other advantages.

Other securities admitted on the Exchange platform for June 2024, include:

- Veritasi Homes and Properties PLC ₦0.64 billion Series 6 Tranche A and ₦0.53 billion Series 6 Tranche B CPs under its ₦20.00 billion CP Programme
- Fidson Healthcare PLC ₦1.61 billion Series 9 and ₦11.08 billion Series 10 CPs under its ₦25.00 billion CP Programme
- Coronation Group Limited ₦0.53 billion Series 1 and ₦7.93 billion Series 2 CPs under its ₦20.00 billion CP Programme
- DLM Capital Group Limited ₦1.48 billion Series 14 Tranche A and ₦4.04 billion Series 14 Tranche B CPs under its ₦20.00 billion CP Programme
- CapitalSage Technology Limited ₦2.50 billion Series 9 and ₦3.24 billion Series 10 CPs under its ₦15.00 billion CP Programme
- Daraju Industries Limited ₦2.05 billion Series 27 CP under its ₦20.00 billion CP Programme
- Coronation Merchant Bank Limited ₦21.73 billion Series 4 CP under its ₦100.00 billion CP Programme
- Dangote Sugar Refinery PLC ₦12.93 billion Series 4 and ₦29.86 billion Series 5 CPs under its ₦150.00 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.

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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 – May 2024)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	63,594,499	46,072
Foreign Exchange Derivatives	19,819,545	15,180
Treasury Bills	20,239,597	15,068
OMO Bills	15,149,830	11,444
CBN Special Bills	2,929,215	2,337
FGN Bonds	10,799,730	8,358
Promissory Notes	12,728	12
Other Bonds*	8,318	7
Eurobond	228,559	168
Repurchase Agreements/Open Repos	46,468,122	34,571
Unsecured Placements/Takings	188,222	155
Money Market Derivatives	-	-
Commercial Papers	-	-
Sukuk Bonds	372,277	327
Total	**179,810,640**	**133,700**

No. of Business Days	103	103
Average Daily Turnover	**1,745,734**	**1,298**

Average Year-to-Date (YTD) $/₦ @ 1,344.88
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 @ June 10, 2024; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for Jan. – May 2024 period amounted to ₦179.81 trillion. Trading activities in the FX (Spot FX and FX Derivatives) market had the largest contribution, accounting for 46.39% of overall market turnover. Repurchase Agreements (Repos) accounted for 25.84%, whilst transactions in OMO Bills accounted for 8.43%. Bonds, T.bills, CBN Special Bills, Promissory Notes and Unsecured Placements & Takings accounted for 6.34%, 11.26%, 1.63%, 0.01% and 0.10% of overall market turnover.

FMDQ Dealing Member (Banks) League Table (January – May 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	Citibank Nigeria Limited
5	Access Bank PLC
6	Standard Chartered Bank Nigeria Limited
7	Wema Bank PLC
8	Zenith Bank PLC
9	First City Monument Bank Limited
10	Ecobank Nigeria Limited

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 for the review period. The top ten (10) Dealing Member (Banks) accounted for 68.21% (₦101.92 trillion), while the top three (3) accounted for 36.26% (₦24.72 trillion) of the overall turnover of trades in the secondary market.

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Transaction Structure of Asset-Backed Securities

If a company needs to raise cash, it typically takes out a loan or issues bonds, with the terms contingent on its financial health and credit rating. Alternatively, the company might consider selling some existing assets with future cashflows to convert the future income into immediate cash; however, there might be little to no secondary market for these individual assets. In our previous articles, we introduced an alternative method to finance simple self-liquidating assets through the lens of securitisation, key participants involved in structuring and issuing such products, as well as the legal and regulatory landscape governing such financial transactions. (*Click here to view previous article*)

This article explores the methods used for transferring risks of Asset Backed Securities ("**ABS**"), delves into the two (2) main categorisations for securitisation and examines practical use cases across various underlying motives for securitising assets.

Understanding ABS Transaction Structures

Financial institutions manage their assets via securitisation by transferring them off their balance sheets or borrowing against them. This process enables them to refinance at market rates, reducing their borrowing costs. Securitisations are categorised as either traditional or synthetic, depending on how the risk is transferred.

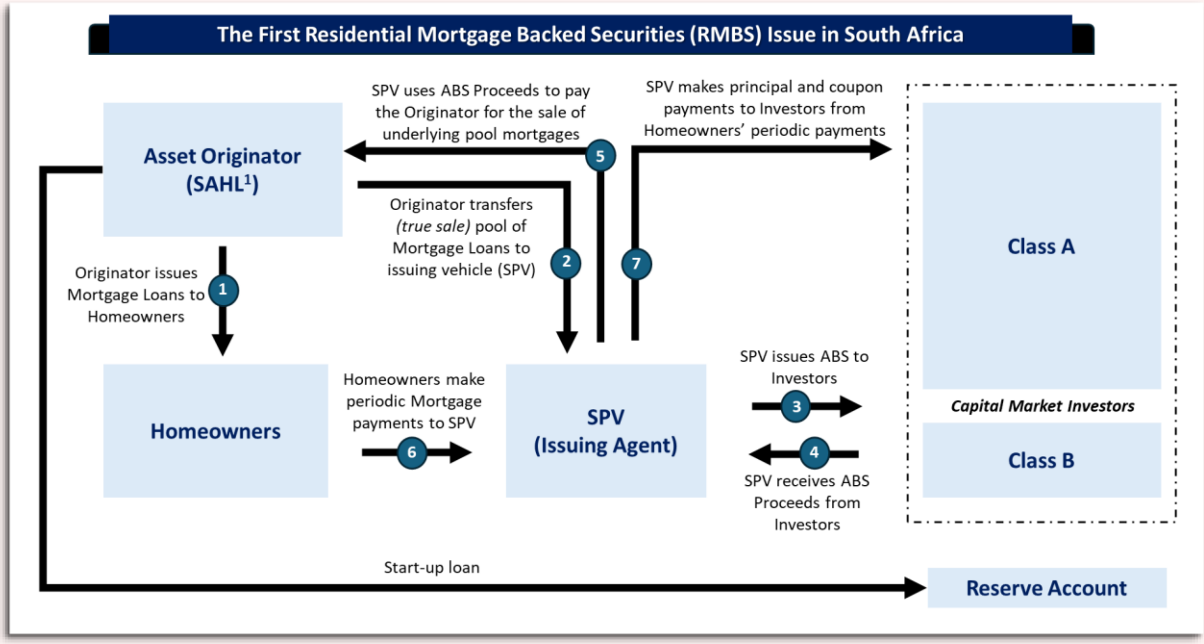
- **Traditional Securitisation:** Also known as "**Cash Securitisation**," involves the legal transfer of the securitised assets to the issuer of the ABS (the "**Special Purpose Vehicle**" or "**SPV**"). As a result, the underlying assets are removed from the originator's balance sheet and transferred to the SPV's balance sheet, who then assumes ownership of the cash flows generated by the pooled assets. In this securitisation structure, there must be an SPV, an actual legal sale of assets from the originator to the SPV, the issuance of securities backed by the pooled assets, and the outright generation of cash from the sale of ABS. Typical securities issued in a cash securitisation include Mortgage-Backed Securities (MBS), among others

  Traditional ABS Transactions Workflow: *The First Residential Mortgage-Backed Securities ("RMBS") Issue in South Africa*

  A case study to gain a better understanding of this type of securitisation:

<table>
<tr><th>Features</th><th>Description</th></tr>
<tr><td>Asset Originator</td><td>South Africa Home Loans (Pty) Limited (“SAHL”) is the first specialised residential mortgage origination, servicing, and securitisation company in South Africa, established in 1999. It has originated close to $200.00 million in residential mortgages. Major shareholders include International Finance Corporation (“IFC”), Standard Bank of South Africa, JP Morgan Chase, and Peregrine Holdings.</td></tr>
<tr><td>Financing Objectives</td><td>SAHL's business model focuses on providing affordable home loans at a discount compared to traditional banks, leveraging securitisation for funding. Successful RMBS transactions are crucial for the company's goals and the development of the housing finance sector in South Africa. IFC contributed to credit enhancement with a $1.50 million investment in the subordinated tranche and provided structuring expertise.</td></tr>
<tr><td>ABS Structure</td><td>The structure involved securitising 6,462 residential mortgages totalling ZAR 1.32 billion. The issue comprised a $118.00 million equivalent AAA-rated senior tranche (Class A) and a $10.00 million equivalent BBB-rated subordinated tranche (Class B), both paying floating rate spreads over the three-month (3M) Johannesburg Interbank Average Rate (“JIBAR”). The ABS maturity is set for 2024, with optional redemption in 2005.</td></tr>
<tr><td>Investment Term Sheet</td><td>
<table>
<tr><th>Consideration</th><th>Description</th></tr>
<tr><td>Amount</td><td>ZAR 1.25 billion (Approximately $128.00 million)</td></tr>
<tr><td>Currency</td><td>South African Rand (ZAR)</td></tr>
<tr><td>Issue Date</td><td>November 29, 2001</td></tr>
<tr><td>Maturity</td><td>23 Years, non-call 4</td></tr>
<tr><td>Series</td><td>Class A: ZAR 1.15 billion (approximately $118 million)
Class B: ZAR 100 million (approximately $10 million)</td></tr>
<tr><td>Interest Payment</td><td>Class A: 3M JIBAR+0.70% (stepping up to +0.980% in Year 5) payable quarterly
Class B: 3M JIBAR+2.30% (stepping up to +2.875% in Year 5) payable quarterly</td></tr>
<tr><td>Principal Payment</td><td>Soft amortisation after grace period</td></tr>
<tr><td>Rating</td><td>Class A: Rated AAA & Aaa by local affiliates of Fitch and Moody’s, respectively
Class B: Rated BBB & Baa2 by local affiliates of Fitch and Moody’s, respectively</td></tr>
<tr><td>Enhancement</td><td>ZAR 15.00 million (Approximately $1.5 million) investment in Class B Notes by IFC</td></tr>
</table>
</td></tr>
<tr><td>Outcome</td><td>SAHL's securitisation was the first RMBS issue in South Africa, setting a benchmark for future transactions and developing the housing finance sector. The issue was heavily oversubscribed and placed among institutional investors and fund managers. Subsequent issuances occurred at tighter spreads due to international standard structuring, new features, and appreciated credit protection.</td></tr>
</table>

Figure 1 – Case of the First (1st) RMBS Issue in South Africa[1]



- **Synthetic Securitisation:** Synthetic securitisation is similar to traditional securitisation in that investors in the ABS are entitled to the payoff from an underlying pool of assets. However, in a synthetic securitisation, the pool of cash-generating assets is not transferred (i.e., there is no actual sale of the assets) to an SPV for upfront cash receipt. Instead, the pooled assets remain on the originator's balance sheet, whilst a derivative product is used to replicate and repackage the cashflow exposure of the pooled assets. The derivatives contract effectively transfers the risk of the underlying asset pool to the investors. In return, the originator pays the investors a premium based on the probability of risk events occurring. This allows investors to gain exposure to the risks and rewards of the asset pool without a physical transfer of assets, eliminating the need for an SPV or the issuance of ABS

Kindly refer to Table 1 below for a summary of the differences between cash and synthetic Securitisation.

Table 1 *– Key Differences Between Traditional and Synthetic Securitisation Structures*

Features	Traditional Securitisation	Synthetic Securitisation
True Sale of Assets	▪ *Yes*	▪ *No*
Originators Objective	▪ *Funding*	▪ *Risk Hedging/Capital Management*
Ownership of Assets	▪ *SPV*	▪ *Asset Originator*
Typical Assets	▪ *Loans* ▪ *Receivables* ▪ *Future Flow Funds*	▪ *Corporate Exposures* ▪ *Trade Finance* ▪ *SME Lending*
Investors Return	▪ *Based on Pooled Assets Cash Flows*	▪ *Based on Pre-agreed Risk Premium*

[1] Source: International Finance Corporation

Conclusion

As the African economy seeks to bolster its financial landscape, understanding and implementing robust securitisation frameworks can be pivotal in achieving broader economic objectives and enhancing market efficiency. The transaction structure of ABS provides financial institutions with various methods to enhance liquidity and manage risk effectively. In traditional securitisation, asset ownership is legally transferred to an SPV, which then issues securities backed by the cash flows from the pooled assets. In contrast, synthetic securitisation enhances an originator's balance sheet by transferring risk using derivatives products or financial guarantees on a set of reference assets without removing these pooled assets from the originator's balance sheet.

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