



FMDQ SPOTLIGHT



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New Stories

FMDQ 2014 Highlights and a Look Ahead to 2015

FMDQ OTC PLC (FMDQ), from its onset, has operated with a commitment to grow and develop the Nigerian over-the-counter (OTC) market; making it at par with international standards thereby ensuring its global competitiveness. Looking back at 2014, it is evident that FMDQ, in conjunction with its stakeholders, achieved a number of milestones towards the development of the Nigerian OTC market, for itself as an institution and indeed for the Nigerian economy as a whole. Some of the achievements of 2014 are highlighted below:

- FMDQ-Bloomberg E-Bond Trading and Surveillance System (E-Bond) Launch – In March, an electronic trading system for fixed income securities under FMDQ’s OTC market securities exchange platform was launched. The E-Bond, aimed at driving market transparency and liquidity, provides a complete and consolidated marketplace for fixed income securities (bonds, treasury bills etc.), offering market participants a robust and flexible set of tools, supporting the full trade workflow
- NIBOR Reform Program – In April, FMDQ commenced the reform of the Nigerian Inter-bank Offered Rate (NIBOR) in compliance with the Principles for Financial Benchmarks of the International Organisation of Securities Commissions (IOSCO) to enhance and formalise the NIBOR process towards strengthening its credibility as a money market benchmark
- Members’ Licencing – FMDQ performed a series of licencing ceremonies for its first batch of Members in May (Dealing Members) and in December (Associate and Registration Members)
- FMDQ Commercial Paper (CP) Quotation Process and Rules - Desirous of entrenching governance and transparency in the market, FMDQ, identified the need for a robust structure around the issuance and quotation of CPs; and to this end, in October, developed the CP Quotation Process (CPQP) and to support, the CP Quotation Rules (CPQR). The CPQP was developed to revitalise the Nigerian money market and further enhance transparency at the short end of the corporate yield curve

- Publication of First Annual Report and “Agent of Change” Book – In July, FMDQ held its 2nd AGM, published its first Annual Report for the financial year 2013nd unveiled a book on the birth and berth of the organisation, “A Securities Exchange as an Agent of Change”
- Publication of FMDQ Newsletter – In November, FMDQ announced the debut of its monthly newsletter, “FMDQ Spotlight”
- Stanbic IBTC Bank PLC Multi CP Quotation – In November, FMDQ admitted the first CP for quotation on its platform, “Stanbic IBTC Bank PLC (Stanbic IBTC Bank) ₦100bn Multi-Currency Commercial Paper Issuance Programme
- FMDQ Bond Listing and Quotation Rules – In December, the Securities and Exchange Commission (SEC) approved the FMDQ Bond Listing and Quotation Rules, affirming FMDQ’s position as an integrated OTC exchange aimed at bringing about reform in the Nigerian Debt Capital Market
- Market Development Stakeholders’ Sessions – A series of quarterly stakeholder sessions were held, aimed at bringing together all the stakeholders in the FMDQ OTC market to deliberate and brainstorm on various issues and activities geared towards improving the market. The sessions also served as fora for the introduction of new product and market development initiatives as championed by FMDQ
- ‘Members Only’ Market Architecture Meeting – In December, FMDQ hosted its maiden ‘Members Only’ meeting, where the crafting of the FMDQ Market Architecture in which the participants (as represented by the different FMDQ membership categories) would operate was deliberated upon

Looking ahead into 2015, FMDQ, working in conjunction with its stakeholders, will build on the achievements of 2014. Some of the focus areas for 2015 include:

- Growing FMDQ’s membership base to improve network effects in the OTC exchange and by extension, the market
- Introducing a full complement of fixed income and currency derivative products & services to manage risk (i.e. Bi-lateral Repos & Collateral Management, Short-Term Notes (STNs), FX Derivatives, FX Master Agreement etc.)

- Introducing technology solutions to improve market transparency and efficiency - price discovery solutions, website applications and solutions, trading and quotation systems, collateral management system, systems integration to achieve straight-through-processing etc.
- Developing the Nigerian Debt Capital Market (DCM) through improved fixed income securities listings and quotations offerings in Bonds, CPs, STNs, Mutual Funds etc.

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FMDQ OTC 2014 Market Turnover Hits the ₦100 Trillion Mark

The Nigerian OTC market for Foreign Exchange (FX), Treasury Bills (T.Bills), Bonds, Money and Derivatives achieved an overall turnover in 2014 of circa ₦104 trillion. This figure slightly exceeded the BusinessDay estimate of N100 trillion published on September 4, 2013, based on its growth projections of the nation's OTC market following the launch of FMDQ) onto the financial market landscape.

FMDQ was officially launched in November 2013 with a mandate to work with stakeholders to develop the Nigerian OTC market and in the course of just over a year, has engaged in a number of initiatives to deliver on this mandate. In its capacity as the market organiser and frontline market regulator, FMDQ is improving market transparency in the OTC market with its trading systems, price discovery applications, website and the weekly data submissions by its Dealing Members i.e. banks and discount houses on their trading activities in the OTC market.

In the first half of 2014, the Dealing Members achieved an overall OTC market turnover of ₦45 trillion and by the end of December 2014, this rose significantly to ₦104 trillion, with the top 10 Dealing Members accounting for over 70% of this turnover. FX (including FX derivatives) was the most actively traded product, accounting for the largest share of the market turnover at 37.5%, followed by T.Bills and Repos/Buy-Backs with a share of 25.4% and 22.8% respectively. The bond market accounts for only 7.7% of the market turnover, an area where FMDQ and other market stakeholders are looking to boost in 2015, through market development initiatives to be championed by FMDQ. This turnover represents trades executed between Dealing Members, Dealing Members & Clients, and Dealing

Members & the Central Bank of Nigeria (CBN). It excludes primary market auctions in T.Bills, Bonds and FX.

FMDQ will continue to engage in initiatives that will make the Nigerian OTC market globally competitive by working with the stakeholders to improve liquidity, transparency, governance and efficiency in the OTC market. With new initiatives and activities planned for 2015 - listings and quotations of Bonds, CPs and STNs, product diversity, fixed income indices, systems integration to achieve straight-through processing, trading systems enhancement, price discovery solutions, stakeholder education, membership diversification etc. - FMDQ is optimistic about the year and expects a resultant increase in secondary market activity.

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Rand Merchant Bank South Africa Pays FMDQ Courtesy Visit

The Management of FMDQ recently played host to key representatives of Rand Merchant Bank (RMB), South Africa at its office in Victoria Island, Lagos. The courtesy visit paid by the Heads of Trading (Africa) and Fixed Income & Currency Trading, amongst others, provided an interactive forum to review the role of FMDQ in developing the financial markets and analyse other collaboration points from stakeholders geared towards further deepening the markets.

In welcoming the RMB team, the Divisional Head of Operations & Technology, Mr. Dipo Odeyemi, shared the achievements of FMDQ as a market organiser and self-regulator for 2014 as well as its strategic focus for 2015.

The RMB team expressed pleasure that the OTC market has made significant progress since the launch of FMDQ in November 2013; and purported that their visit was mainly due to the importance of the OTC market in expanding the frontiers of the capital market and changing the investment landscape in Nigeria. Whilst noting the challenges hindering growth and development in our markets, the RMB team lauded the milestones achieved by FMDQ in its 12 months of operations, with its 2014 market turnover in excess of ₦100 trillion. They also

communicated the organisation's support for FMDQ in implementing its initiatives in 2015 and beyond.

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FMDQ Turnover & Dealing Members' League Table

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – FX, T.Bills, Money Market (Repurchase Agreements, Buy-Backs and Unsecured Placements/Takings) and Bonds (FGN Bonds and Other Bonds). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories. These figures exclude primary market auctions in T.Bills, Bonds and FX.

The data, collated from the weekly trade data submissions by FMDQ Dealing Members, represents trades executed between Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

FMDQ OTC Market Turnover (January – December 2014)

| | Turnover (₦'million) |
|--|-----------------------------|
| Foreign Exchange | 32,324,766 |
| Foreign Exchange Derivatives | 6,554,345 |
| Treasury Bills | 26,295,864 |
| FGN Bonds | 7,734,216 |
| Other Bonds* | 227,578 |
| Eurobonds** | - |
| Repurchase Agreements/Buy-Backs | 23,661,579 |
| Unsecured Placements/Takings | 6,722,221 |
| Money Market Derivatives | 50,829 |
| | 103,571,397 |
| <i>USD equivalent (million)</i> | <i>647,321</i> |
| No. of Business Days | 254 |
| Average Daily Turnover | 407,761 |
| <i>USD equivalent (million)</i> | <i>2,549</i> |

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The FMDQ League Table shows the rankings of its Dealing Members across all products traded on the FMDQ platform – FX, FX Derivatives, T.Bills, Bonds (FGN Bonds and Other Bonds), Money Market (Repurchase Agreements, Buy-Backs and Unsecured Placements/Takings) and Money Market Derivatives. It depicts the overall ranking for the cumulative value traded across all products.

Top 10 Dealing Members in FMDQ Market (January – December 2014)

| Rank | Dealing Member |
|-------------|---|
| 1 | STANBIC IBTC BANK PLC |
| 2 | ECOBANK NIGERIA LIMITED |
| 3 | DIAMOND BANK PLC |
| 4 | STANDARD CHARTERED BANK NIGERIA LIMITED |
| 5 | ACCESS BANK PLC |
| 6 | UNITED BANK FOR AFRICA PLC |
| 7 | CITIBANK NIGERIA LIMITED |
| 8 | GUARANTY TRUST BANK PLC |
| 9 | FIRST CITY MONUMENT BANK LIMITED |
| 10 | SKYE BANK PLC |

In the above table, most of the banks maintained their positions in the League Table from November 2014 except for United Bank for Africa PLC and Citibank Nigeria Ltd. who swapped positions; and Skye Bank PLC climbing the table to 10th position by displacing First Bank of Nigeria Ltd. United Bank for Africa PLC moved up the table from 7th place to 6th place, displacing Citibank Nigeria Ltd. from the 6th position to occupy the 7th position. Skye Bank PLC climbed the table to 10th place after reporting an increase in unsecured placements/takings transactions for the month of December 2014.

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Upcoming Events

FMDQ Debt Capital Market Workshop

FMDQ, along with SEC, will be holding a workshop on “Nigeria’s Debt Capital Market”. This workshop, where all the challenges being faced in the Nigerian DCM will be traced to their various solutions, will now tentatively hold in April 2015. The workshop aims to be the catalyst for the rejuvenation and growth of the Nigerian DCM. All DCM stakeholders are encouraged to attend. Details of the workshop will be communicated in due course.

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FMDQ Learning

Introduction to FX Derivatives

Derivatives are defined as contracts between two or more parties whose prices are dependent upon or derived from one or more of the underlying assets. The most common underlying assets are stocks, bonds, commodities, currencies, interest rates and market indexes. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.

A foreign exchange (FX) derivative is a financial derivative whose payoff depends on the FX rates of 2 or more currencies. They are commonly used for currency speculation and arbitrage or for hedging (insuring against price movements) FX risk.

The following are the different instruments of FX Derivatives:

- Foreign Exchange Forward: In an FX forward transaction, parties agree to exchange a specified amount of different currencies at some future date, with exchange rate set at the time the contract is entered into. They are used by market participants to lock in an exchange rate on a specific date. There is no payment upfront
- Foreign Exchange Futures: This is a contract to buy or sell a specified amount of a given currency at a predetermined price on a set date in the future. They are very similar to forwards but different as they are exchange traded and while forwards are traded in OTC market

- **Foreign Exchange Option:** This gives the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. They are one of the best ways for corporates or individuals to hedge against adverse movements in exchange rates. An individual that speculates a loss in value of Naira against Dollars for instance, can buy a Call Option to gain from possible loss in Naira value. A Call Option is the right to buy Dollars at a given exchange rate at some time in the future.
- **Foreign Exchange Swap:** This is a simultaneous purchase and sale of identical amounts of one currency for another with 2 different value dates. In this case, an individual borrows a certain amount of a currency from the other party at current rate and simultaneously lends to someone else, another currency. Every party has a repayment obligation to the other. At maturity, each party makes repayments at the forward rates determined at the start of the contract

The two most widely recognised benefits attributed to derivative instruments are price discovery and risk management.

- **Price discovery:** Derivatives play a crucial role in determining the spot (current) and future prices of financial assets. Prices of these assets tend to move in the same direction as the expectations of the players in the market. Hence, the price in the futures market reveals the demand – supply expectation in the future and thus undertakes the process of price discovery in the spot market
- **Risk Management:** This is the process of identifying both the desired and actual levels of risk and altering the latter to equal the former. This process can also be considered as hedging. Hedging has traditionally been defined as a strategy for reducing the risk in holding a market position. For example, an individual in the United States can buy bonds in Nigeria but due to the volatility and uncertainty in the change in Naira exchange rate, the individual can reduce risk by buying FX forwards. The exchange rate for a future date will be agreed at the current date to reduce risk

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