# FMDQ SPOTLIGHT

FMDQ
...empowering the OTC markets

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# New Stories

## FMDQ Embarks on a Financial Market Mission to the Thai Bond Market

In line with FMDQ OTC PLC (FMDQ)'s agenda to be globally competitive and upgrade the Nigerian financial markets to international standards, the securities exchange identified international model financial markets with a view to understudying their operations and processes in order to develop and strengthen FMDQ's market operations and franchise as a whole.

The Thai Bond Market Association (ThaiBMA), one of the identified model markets, is a securities business-related association licenced by the Securities and Exchange Commission (SEC), Thailand, to be a self-regulatory organisation (SRO) promoting the fair and efficient operation of the Thai bond market. ThaiBMA also functions as an information center and pricing agency for the Thai bond market. It takes leading roles in setting market convention, promoting education and market development, and provides vehicles for policy dialogue among the industry and other related parties on issues concerning market development.

During the month, key delegates of the FMDQ Board, led by the Chairman, Dr. (Mrs.) Sarah O. Alade, OON, embarked on a study tour to ThaiBMA. The aim of this mission was to initiate a relationship with ThaiBMA and other key regulators in the Thai bond market and to conduct a strategic, high-level assessment of their market organising and self-regulatory functions ahead of a more diverse stakeholder (regulators, Members, media and Management) study tour.

The FMDQ delegates also visited and engaged the Thai Securities and Exchange Commission (SEC), and the Bank of Thailand (BoT), as well as other market participants including the Stock Exchange of Thailand (SET), Thailand Securities Depository (TSD) and a Primary Dealer, HSBC Bank Ltd.

This enlightening study tour provided FMDQ with several opportunities to engage the regulators, SROs and other participants on the development of the Thai bond market as well as identify prospects for the growth of the Nigerian financial markets as a whole.

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## FMDQ Holds Bi-Annual "Members Only" Meeting

Following on from the inaugural FMDQ "Members Only" Meeting held in December 2014, FMDQ, in its capacity as a market organiser, held the first bi-annual "Members Only" Meeting for 2015. This Meeting, which brought together the different players in the FMDQ markets as represented by the respective membership categories (Dealing, Associate & Registration Members), commenced with a review of the decisions taken and recommendations made at the inaugural "Members Only" Meeting.

The Meeting provided Members with the opportunity to deliberate on and make contributions towards the progress achieved thus far in the building of the Market Architecture as crafted in the inaugural "Members Only" Meeting. New initiatives impacting the market were also reported on and key resolutions, as they impact the Members and the market as a whole, were arrived at.

The key elements of the FMDQ Market Architecture, which formed the basis for the deliberations, centered on OTC Market Supervision, IT Infrastructure, Members & Stakeholders, Market Products & Services and Education.

The second Members Meeting for 2015 will hold in December.

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# FMDQ Listings & Quotations

## FMDQ Welcomes the Listing of ₦4.8tn FGN Bonds & Quotation of ₦2.8tn Nigerian Treasury Bills

In consolidation of the strategic and value-adding initiatives spearheaded by FMDQ in developing the Nigerian OTC markets, the securities exchange has welcomed the listing of ₦4,846,818,821,000.00 Federal Government of Nigeria (FGN) Bonds and the quotation of ₦2,804,793,035,000.00 Nigerian Treasury Bills (NTBs), both outstanding as at July 13, 2015 on its platform.

The Debt Management Office (DMO), the authority under which the FGN issues Bonds and Treasury Bills, and the Listings & Quotations Sponsor appointed to handle the relevant liaison in respect of the listings and quotations, Chapel Hill Advisory Partners Limited (Chapel Hill), were hosted at what turned out to be a most memorable Ceremony, to commemorate this landmark event. Key representatives of the DMO, including the Director-General, Dr. Abraham Nwankwo and of Chapel Hill Advisory Partners Limited, including the Chief Executive Officer, Mr. Bolaji Balogun, were in attendance.

Mr. Bola Onadele. Koko, MD/CEO, FMDQ, noted that this was yet another major accomplishment for FMDQ, and re-iterated the commitment of the debt-focused OTC securities exchange to be innovative and credible, in support of the Nigerian economy. Mr. Onadele further purported that FMDQ, in providing an efficient platform for the registration, listing, quotation and valuation of debt securities, has significantly improved transparency, integrated the domestic and international markets through enhanced trade visibility, improved market surveillance, global presence and competitiveness, and enhanced secondary market liquidity and effective price formation. He added that by listing, quoting and trading the FGN Bonds and NTBs on FMDQ, the securities gain access to the full complement of the FMDQ listings and quotations services, which include, but are not limited to, global visibility through their inclusion on the FMDQ Bloomberg E-Bond Trading System and on the Quotations Page of the FMDQ website, and enhanced secondary market liquidity provided by FMDQ Dealing Members.

The DG, DMO, Dr. Nwankwo, highlighted that it was expected that FMDQ will continue to provide a robust and credible OTC platform for the listed FGN securities to the public and continuously work to improve market transparency and price discovery. He went on further to state that FMDQ should also monitor the activities of its Dealing Members to ensure accountability and publish relevant market data and information as and when due to guide investors in their investment decisions. Mr. Balogun, CEO, Chapel Hill, commented that the listing & quotation would bring greater transparency and liquidity to the Nigerian Government securities and would ultimately be beneficial to the Federal Government of Nigeria in pricing future issuances.

Click to view highlights of the ceremony

Click to view details of Bonds listed on FMDQ platform
Click to view details of T.Bills quoted on FMDQ platform

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## FCMB Financing SPV PLC ₦26.0bn Bond Listed on FMDQ

FMDQ recorded yet another achievement as it welcomed the FCMB Financing SPV PLC ₦26,000,000,000 Series 1, 7-Year 14.25% Fixed Rate Unsecured Bond under a ₦100,000,000,000.00 Debt Issuance Programme (the FCMB SPV Bond) to its platform. To which end, FMDQ played host to the issuer, represented by the Group MD/CEO FCMB Ltd., Mr. Ladi Balogun and the issuing house/sponsor of the bond, represented by the Executive Director, FCMB Capital Markets Ltd., Mr. Tolu Osinibi.

Speaking at the Ceremony, Ms. Tumi Sekoni, Head, Business Development Group at FMDQ noted that the securities exchange, recognising the growth potential of issuers of debt in the Nigerian capital market, provides a remarkable opportunity for the issuers to raise the profile of their issues and access a deep pool of funds. Ms. Sekoni further stated that listing of debt securities on the OTC securities exchange provides a wide range of benefits across the debt market value chain, amongst which are global visibility, transparency, improved secondary market liquidity, price formation and benchmark pricing. Mr. Balogun, whilst addressing the financial market, highlighted that the significance of listing the FCMB SPV Bond on the FMDQ platform is hinged on the availability of a readily accessible liquid market to the bondholders, where the value of their investments can easily be determined and monitored on a daily basis; as well as a platform to realise their investment, when necessary. He commended FMDQ's efforts towards creating more depth in the Nigerian debt market while applauding the platform's seamless processes and its drive to achieve market transparency by deploying technology initiatives.

Mr. Osinibi said FMDQ's efforts in encouraging the application of international best practices in the local trading environment and in the provision of credible, real-time market information, enables greater participation by market operators and significantly enhances liquidity. He expressed his excitement about market development initiatives driven by FMDQ, including the revival of the Commercial Paper Market, and his desire to see more of such initiatives.

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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 – Foreign Exchange (FX), Treasury Bills (T.Bills), Money Market (Repurchase Agreements (Repos), Buy-Backs and Unsecured Placements/Takings) and Bonds (Federal Government of Nigeria (FGN) Bonds, Eurobonds & Other Bonds (Agency, Sub-national, Corporate & Supranational bonds)). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories respectively. 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).

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## FMDQ OTC Market Turnover (January – June 2015)

| | Turnover (₦'bn) |
|---|---|
| Foreign Exchange | 14,727 |
| Foreign Exchange Derivatives | 4,488 |
| Treasury Bills | 21,429 |
| FGN Bonds | 4,369 |
| Other Bonds | 12 |
| Eurobonds | 32 |
| Repurchase Agreements/Buy-Backs | 16,676 |
| Unsecured Placements/Takings | 6,820 |
| Money Market Derivatives | 49 |
| | 68,603 |
| *USD equivalent (bn)* | *349* |

| | |
|---|---|
| No. of Business Days | 121 |
| Average Daily Turnover | 567 |
| *USD equivalent (bn)* | *3* |

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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, Eurobonds 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 – June 2015)

| Rank | Dealing Member |
|---|---|
| 1 | Stanbic IBTC Bank PLC |
| 2 | Access Bank PLC |
| 3 | First Bank of Nigeria Limited |
| 4 | Diamond Bank PLC |
| 5 | Skye Bank PLC |
| 6 | United Bank for Africa PLC |
| 7 | Ecobank Nigeria Limited |
| 8 | Standard Chartered Bank Nigeria Limited |
| 9 | Union Bank of Nigeria PLC |
| 10 | Citibank Nigeria Limited |

All Dealing Members maintained their positions on the League Table except Standard Chartered Bank Nigeria Ltd., Union Bank of Nigeria PLC and Mainstreet Bank Ltd. Standard Chartered Bank Nigeria Ltd. replaced Mainstreet Bank Ltd. at the 8th position owing to the integration of operations between Skye Bank PLC (who occupies 5th position) and Mainstreet Bank Ltd. Union Bank of Nigeria PLC made an entry to the top 10, occupying the 9th position from 12th due to increase in its FGN Bonds and Unsecured Placement/Taking transactions.

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# Upcoming Events

## FMDQ Debt Capital Market Workshop

FMDQ, in partnership with the Securities and Exchange Commission (SEC) and International Finance Corporation (IFC), will be holding a Workshop on "Nigeria's Debt Capital Market (DCM)". This Workshop which aims to be the catalyst for the rejuvenation and growth of the Nigerian DCM, will focus on challenges in the Nigerian DCM and drill down to practical and implementable solutions. 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 Bond Pricing

Bonds can be priced at a premium, discount or at par. A bond is at a premium when price of the bond is higher than its par value and at discount when price of the bond is lower than its par value. With rates, when the bond yield is lower than the coupon rate, the bond is selling at a premium, and selling at a discount when the bond yield is higher than the coupon rate. Traditionally, a bond is issued at par or face value, which represents the amount the issuer promises to pay back to the investor at maturity of the bond. The price of a bond is the sum of the present values of all expected coupon payments plus the present value of the par value at maturity.

Bond price is quoted in percentage of the par value (100); value of 95 implies 95% of par value, as value of 110 implies 110% of par value. A bond issued with par value of 100 could have a yield of 14% if the coupon rate at issue is 14%. On the other hand, a bond issued with a discount (less than par value of 100) will have no coupon rate but have a yield of 14%. The price of a bond and its yield are inversely related. When price of a bond falls, the yield of the bond rises. If the price of a bond drops to 97.50 from 100 par value, yield on the bond will rise to above 14% depending on the term to maturity of the bond. The higher the term to maturity, the higher the bond yield.

While prices of bonds are majorly affected by the demand and supply of the bonds, there are also other factors to be considered when making trading/investment decisions in these securities:

- Interest Rates: In general, when interest rates rise, bond prices fall and vice versa. This implies an inverse relationship between interest rates and bond prices. If an investor buys a bond at par value of 100 at 14% while interest rate is 12%, the investment will be regarded attractive because of the higher yield on investment. If the general interest rate rises to 14.5%, the bond at 14% would be deemed unattractive as rate of return on investment is lower than interest rate. In this latter scenario, investors will most likely make adjustments for this by seeking higher yields thereby making bond prices fall and yields on the bonds rise. This will make the bond competitive
- Inflation: When inflation is on the rise, bond prices fall. When inflation is decreasing, bond prices rise. This is because rising inflation erodes the purchasing power of what is earned on an investment. In other words, when a bond matures and inflation is on the rise, the return earned on investment will be worth less
- Exchange Rate: Exchange rates affect bond prices because a devaluation could lead to increasing interest rates while a revaluation could reduce interest rates. (***see interest rates above***)
- Credit Ratings: A credit rating can provide information about an issuer's ability to make interest payments and repay the principal on a bond. The higher the credit rating, the more likely the bond issuer is to meet its payment obligations. If the issuer's credit rating goes up, the prices of its bonds will rise and a reduced credit rating will drive the prices of their issued bonds downwards

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