FMDQ SPOTLIGHT

Newsletter Edition 23 – September 2016

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New Stories

FMDQ Co-Sponsors and Participates in the 32nd Annual Conference of the AUHF

The African Union for Housing Finance (AUHF), in partnership with the Nigerian Mortgage Refinancing Company (NMRC) PLC, hosted the 32nd Annual Conference of the AUHF on September 14 – 16, 2016. The Conference, themed, "Housing & Africa's Growth Agenda", sought to offer stakeholders a platform for discussing, sharing experiences, and deliberating towards innovative interventions to support the growth of Africa's economies through the development of a vibrant housing sector.

FMDQ OTC Securities Exchange ('FMDQ' or 'the Exchange'), by virtue of its continued partnership with NMRC, aimed at intermediating long-term funds from the capital market towards the development of the Nigerian mortgage industry, co-sponsored and participated in the Conference. Attendance of this conference was among others, primarily driven by the need to further identify areas and ways in which Nigerian debt capital markets (DCM) can support the frameworks for policies discussed that would drive the development of sustainable and affordable housing finance in the Nigerian housing sector. Other key participants in attendance included senior representatives from the Federal Ministries of Finance, Works, Housing and Power, State Governments, Central Bank of Nigeria (CBN), World Bank Group and several Development Agencies, and Mortgage Banks from across Africa.

FMDQ had on June 8, 2016, signed a Memorandum of Understanding with NMRC, for a partnership which will serve to boost the Nigerian housing sector through the debt capital market.

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Third OTC FX Futures Contract Matures and Settles on FMDQ

Following the launch of Naira-settled OTC FX Futures in the Nigerian financial market in June 2016, and the successful settlement of the first two (2) contracts in July and August respectively, the 3rd OTC FX Futures contract, NGUS SEP 28 2016, with a notional amount of circa $180.00mm, matured and settled on Wednesday, September 28, 2016, on FMDQ; bringing the total value of contracts matured so far, on the Exchange, to circa $350.00mm.

This contract, which stopped trading on September 20, 2016, in line with the FMDQ OTC FX Futures Market Operational Standards, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate published daily on FMDQ's website, and the associated clearing/settlement effected by the designated Clearing Agent, Nigeria Inter-Bank Settlement System PLC (NIBSS). Accordingly, and as was the case with the last two (2) maturities, the Central Bank of Nigeria (CBN) repriced its quotes, on the existing 1- to 11-month contracts and in addition, introduced a new 12-month contract, NGUS SEP 20 2017, for $1.00bn at $/₦ 243.50.

With over $3.5bn worth of open OTC FX Futures contracts offered by the CBN, across all the tenors, and traded on FMDQ, the OTC FX Futures Exchange, the value-add of playing in the OTC FX Futures market has become even more emphasised. The product's receptiveness by market participants/end-users remains steady, as the profile of the contract buyers continue to include Authorised Dealers, Foreign Portfolio Investors and importers, among others, seeking respite from the uncertainties in the market and looking to significantly improve planning for their FX exposures.

As the CBN continues to drive other initiatives aimed at boosting the Nigerian FX market, the OTC FX Futures market continues to provide a reliable opportunity for corporates and businesses to effectively hedge their FX rate risk.

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Standard Bank Group South Africa Visits FMDQ

FMDQ, on Thursday, September 29, welcomed a delegation of Standard Bank Group, one of South Africa's largest financial services group, on a site visit to the Exchange. The delegation comprised of mid-level Executives from the bank, on an executive programme put together by the Gordon Institute of Business Science (GIBS), South Africa's top business school, as well as GIBS officials.

The visit availed the delegates the opportunity to gain insight into the Nigerian financial markets, particularly the debt capital and FX markets; FMDQ's role in the development of the over-the-counter (OTC) market and the products under its purview; and FMDQ's unique service offerings. The participants also gained practical knowledge of FMDQ's market operations as they were exposed to live trading on FMDQ's bespoke trading terminals, the FMDQ-Bloomberg E-Bond Trading System and the Thomson Reuters Foreign Exchange Trading System.

The delegates, who work in different regions within Africa and the United Kingdom, visited FMDQ and other financial market operators in Nigeria, as part of a three-country study tour to South Africa, China and Nigeria, in a bid to expose them to the workings of the markets in other jurisdictions.

In its capacity as a market organiser, FMDQ remains resolute in its commitment to the development of the financial markets, both in Nigeria and Africa as a whole, through the dissemination of market data and information, amongst other services.

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FMDQ Turnover & Dealing Member (Banks)' 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), Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)) and Money Market (Repurchase Agreements (Repos)/Buy-Backs 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 OTC Market Turnover (January – August 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	10,079,427	42,556
Foreign Exchange Derivatives	5,941,547	25,086
Treasury Bills	26,098,615	110,190
FGN Bonds	5,742,399	24,245
Other Bonds*	28,530	120
Eurobonds	39,588	167
Repurchase Agreements/Buy-Backs	21,297,002	89,918
Unsecured Placements/Takings	2,204,461	9,307
Money Market Derivatives	495	2
Total	**71,432,063**	**301,592**

No. of Business Days	167	167
Average Daily Turnover	**427,737**	**1,806**

mm- Million
USD/₦ @ 236.85
*Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ September 7, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to August 2016 amounted to ₦71.43trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 37% of the market. Secured market transactions (Repos/Buy-backs) accounted for 30%, while FX market transactions accounted for 22% , FGN Bonds, 8% and Unsecured Placement & Takings, 3%, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Market (January - August 2016)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks).

Rank	Dealing Member (Banks)
1	ACCESS BANK PLC
2	UNITED BANK FOR AFRICA PLC
3	STANBIC IBTC BANK PLC
4	DIAMOND BANK PLC
5	FIRST BANK OF NIGERIA LIMITED
6	ECOBANK NIGERIA LIMITED
7	STANDARD CHARTERED BANK NIGERIA LIMITED
8	FIRST CITY MONUMENT BANK LIMITED
9	UNION BANK OF NIGERIA PLC
10	GUARANTY TRUST BANK PLC

The top ten (10) Dealing Member (Banks) accounted for 70% (₦85.56trn) of the overall turnover in the market, with the top three (3) accounting for 40% (₦34.19trn) of this sub-section of the market. Access Bank PLC, United Bank for Africa PLC and Stanbic IBTC Bank PLC topped the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall OTC market.

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FMDQ Learning

Principles Guiding the Structuring, Issuance and Trading of Sukuk – Part 1

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines Sukuk as "certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services, or (in the ownership of) the assets of particular projects or special investment activity". Sukuk, in general, may be understood as Sharia-compliant bonds, given that they are Islamic financial certificates that share the qualities of bonds; for instance, a Sukuk investor has a common share in the ownership of assets linked to an investment, although this does not represent a debt owed by the issuer of the bond.

The Sukuk structure is different to that of normal interest-bearing bonds, as the latter are interest-bearing securities, whereas Sukuk are basically investment certificates consisting of undivided beneficial ownership claims in a pool of assets. Sukuk holders are therefore entitled to a share of the revenues generated by the Sukuk assets and the sale of Sukuk relates to the sale of a proportionate share in the asset.

Sukuk Structure

Sukuk structures often rely on the creation of a special purpose vehicle (SPV) by an originator (primary obligor), responsible for the issuance of Sukuk certificates, which represent the entitlement to a debt, ownership of an asset or to rental incomes. The market value of the underlying asset(s) on issue date must be equal to or exceed the principal amount of the Sukuk. In addition, the assets must be unencumbered on the day of issuance.[1]

Sukuk could either be asset-based or asset-backed:

- **Asset-backed Sukuk** represents a true sale transaction whereby the transfer of assets from the originator to Sukuk holders occurs. The ownership rights of the Sukuk investor are therefore legally binding in court. Investors in asset-backed Sukuk are fully exposed to the performance risk of the underlying asset and are rated on the expected performance of the asset
- **Asset-based Sukuk** involves the issuer purchasing the assets and then investing, trading or leasing them on behalf of Sukuk holders. At no point during the transaction is actual legal ownership conferred to Sukuk investors, therefore, they have no recourse to the underlying assets in the event of a default. Asset-based securities are rated based on the credit worthiness of the obligor

Due to the equity-like nature of asset-backed Sukuk, majority of Islamic finance scholars favour these securities over asset-based Sukuk, which are debt-like in nature.

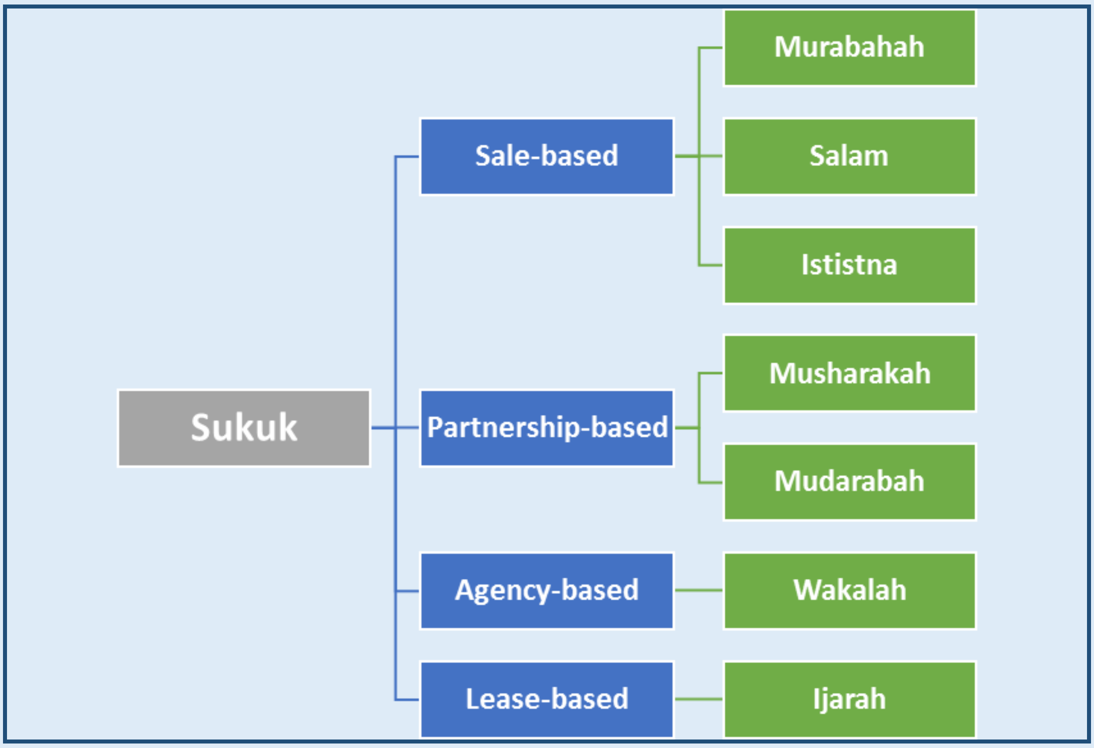
Difference between Sukuk & Interest-bearing Bonds

Focus	Sukuk	Interest-bearing Bonds
Asset ownership	Represents a claim on ownership of real assets	Represent a claim on debt instruments
Issue Price	Priced according to the value of the underlying asset	Pricing is based mainly on credit rating
Income Source	Income is generated by the underlying assets	Income is generated from the obligor's cash flow
Investment Risk	The risk lies in the performance of the underlying assets	The risk lies with the issuer's credit rating
Capital Redemption	Return of capital is not guaranteed	The issuer is obligated to pay face value of the bond at maturity
Secondary Market Tradability	Sukuk which represent debt receivables cannot be traded in the secondary market	All bonds can be traded in the secondary market

[1] Latham & Watkins LLP The Sukuk Handbook: Guide to Structuring Sukuk (2015)

Types of Sukuk

The diagram below summarises the classification and types of Sukuk:



Source: *Islamic Capital Market Society: Overview of the Concept and Growth of Sukuk (2010)*

Sharia Principles for Structuring Sukuk

The most distinctive feature of Sukuk remains its compliance with Sharia principles. Compliance must be observed at (3) stages (primary issuance, secondary trading and redemption) during the tenor of a Sukuk. These principles include:

- Prohibition of charging or receiving of *Riba* (Interest)
- Underlying assets must be Sharia-compliant i.e. must not involve gambling, alcohol, ammunition production, pornography, etc.
- Prohibition of speculation, uncertainty and the exploitation of ignorance
- Mutual consent between all transacting parties

Legal Documentation for Structuring Sukuk

Documentation used in the structuring of Sukuk are required to be legally compliant, to ensure that they are recognised and enforceable in courts. These documents include:

- Issuance documents
- Facility/Programme agreements
- Trust deeds
- Security (collateral) documents
- Sharia transaction agreements, etc.

A clear understanding of the fundamentals of Sukuk, alongside the legal and Sharia principles, which guide the processes involved in the issuance, listing and redemption of Sukuk, is important for all stakeholders in the Islamic finance industry. More details will be provided in the subsequent part of the Series.

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