FMDQ SPOTLIGHT

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New Stories

FMDQ Launches Dealing Member (Specialists) Membership for Fixed Income Trading

FMDQ OTC Securities Exchange (FMDQ), with a vision of becoming No. 1 in Africa in the fixed income and currency markets by 2019, maintains its commitment to develop the Nigerian financial markets by implementing initiatives directed towards the achievement of this goal. In line with its desire to, not just integrate the Nigerian financial markets, thereby improving the markets' network effects, but to also promote market liquidity, with particular focus on the debt capital market (DCM), FMDQ has launched its Dealing Member (Specialists) (DMSs) category of membership, for non-bank financial institutions (NBFIs) to act as market makers in the FMDQ fixed income market. Participation of the NBFIs, typically the investment banking firms and securities dealing firms, will generate additional liquidity to the Nigerian fixed income market and serve as an avenue for effective and efficient retail participation in this market.

This unique initiative, where fixed income dealers of NBFIs can trade Bonds, Commercial Papers and Treasury Bills in the FMDQ market, was birthed from the identification of an innovative opportunity for the much needed participation of NBFIs in the Nigerian fixed income market. The DMS market will be one where the participants, DMSs, will make market in Treasury Bills (to begin with) and FGN Bonds, providing two-way quotes to other DMSs and one-way quotes to clients (institutional and retail), thereby generating the required fixed income market liquidity in these factions of the investor market. The DMS market will operate like the existing FMDQ Dealing Member (Banks) market with a view to the full integration of the Dealing Member (Banks) and Dealing Member (Specialists) markets at some point in the future. Forward-thinking and resourceful NBFIs, via this new membership category, will contribute to the development of the Nigerian DCM and indeed leverage on this potentially highly beneficial business opportunity. FMDQ currently has twenty-five (25) institutions that have successfully completed the first phase of the membership application process and prudently positioned to take advantage of this opportunity.

In 2015, FMDQ along with over 35 NBFIs, finalised the draft Framework covering the DMS Project Roll-Out Plan, minimum registration requirements, operational modalities and Trading System requirements for the DMS market and proceeded to implement the various action points, with the activation of the new membership category in December 2015.

As part of the implementation exercise for this Project roll-out, a robust web-based proprietary trading system, FMDQ Q-Deal, was deployed to facilitate the trading of fixed income securities by the DMSs. With integrated multi-trading style functionalities, FMDQ Q-Deal features anonymous and bilateral trading capabilities and enhances accessibility, price formation, pre- & post-trade price discovery and market surveillance. Incorporated into the System is a frontier trade order management solution that will enable DMSs monitor their trading positions and profitability on a real-time basis.

A 2-day Simulation Workshop was organised in March 2016 for the twenty-five (25) institutions that successfully completed the initial membership application to become DMSs. The Simulation Workshop, a crucial step in the implementation process, afforded participants the opportunity to test-run FMDQ Q-Deal, get a glimpse into how the DMS market will operate and most importantly, provided an avenue for feedback and recommendations from the participants to ensure a seamless activation of the market at go-live. The CEOs of the DMSs were also on hand to witness the Simulation Workshop and offer their support and recommendations.

A 1-month trial period, when DMSs will "dummy" trade, will begin, to help the DMSs further entrench their proficiency in and understanding of FMDQ Q-Deal and the DMS Market Rules ahead of the commencement of live trading on Treasury Bills (and later FGN Bonds) on the FMDQ platform.

FMDQ DMS is a subset of the FMDQ Dealing Member category of membership which also consists of the Central Bank of Nigeria licensed banks as the primary subset (Dealing Member (Banks)) in this membership category. The Dealing Members, combined, will make market in the products traded on the OTC Exchange, under the efficient governance of FMDQ, serving to promote the integrity of the market, thereby improving and deepening market liquidity, ultimately developing the Nigerian DCM market and the overall economy.

FMDQ, with the support of the Securities and Exchange Commission (SEC), Nigeria, will continue to innovate to ensure its markets maintain high levels of transparency, governance and integrity, advocating investor protection and supporting its long-term ability to continually create value for all its stakeholders. Through its unique initiatives, the OTC Exchange will deliver on its mandate to develop the Nigerian DCM, through empowering the DCM ecosystem to be innovative and credible, whilst focusing on promoting and enhancing the liquidity of fixed income markets.

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FMDQ Hosts Workshops on OTC Derivatives in Nigeria

FMDQ, in its roles as a self-regulatory organisation (SRO), and market organiser, registered by SEC to provide a platform where all OTC (over-the-counter) market activities in fixed income, currencies and derivatives are transacted, recently commissioned a Project, "Feasibility Study on the Introduction of OTC Derivatives in the Nigerian Financial Markets", to assess the readiness of the market and its stakeholders for derivative products.

In a bid to engage key financial markets stakeholders on the Project findings, four (4) Workshops were organised in March by FMDQ and Salonika Consortium (comprised of Salonika Consultancy, G. Elias & Co. Solicitors & Advocates, and FDHL). The objectives of the Workshops included:

- Understanding and articulating interest rate and foreign exchange risk management challenges as applicable to stakeholders
- Providing stakeholders' perspectives on possible derivatives requirements

- Designing suitable OTC derivative products duly customised for the Nigerian financial markets

- Supporting the achievement of FMDQ's "GOLD" Agenda (**G**lobal Competitiveness, **O**perational Excellence, **L**iquidity and **D**iversity) for the transformation of the financial markets

The Workshops were well attended by a diverse selection of financial markets participants, as noted below:

- Members of various financial markets trade associations such as Pension Fund Operators Association of Nigeria (PenOp), Association of Corporate Treasurers of Nigeria (ACTN), and Fund Managers Association of Nigeria (FMAN)

- Representatives of Investment Banks, Securities Brokers, Issuing Houses & Insurance Companies

- Representatives of Commercial Banks, Merchant Banks and Inter-Dealer Brokers

The Derivatives Workshops initiative is very much in line with the FMDQ mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy.

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FMDQ Presents Keynote Address at the 2016 1st Quarter Meeting of the Association of Issuing Houses of Nigeria (AIHN)

At the annual 1st quarter 2016 Lunch Meeting of the Association of Issuing Houses of Nigeria (AIHN), FMDQ, represented by its MD/CEO, Mr. Bola Onadele. Koko, presented the keynote address titled, "The Nigerian Debt Capital Market: Challenges & Opportunities," which was delivered in line with the Luncheon's theme of finding ways on how the debt capital markets (DCM) could be effectively utilised in to fund infrastructure projects. A panel discussion followed on, where issues from the keynote address were deliberated in more detail. Members of the panel included: Mr. Victor Ogiemwonyi (President, AIHN & MD/CEO, Partnership Investment PLC), Mr. Johnson Chukwu (MD/CEO, Cowry Asset Management), Mr. Sonnie Ayere (Founder/Group Chairman, Dunn Loren Merrifield), Mr. Chris Oshiafi (MD/CEO, PanAfrican Capital PLC) and Mr. Bola Onadele. Koko (MD/CEO, FMDQ OTC Securities Exchange).

The well attended event, held at the Wheatbaker Hotel, Ikoyi, Lagos, on March 29, 2016, provided FMDQ an opportunity to interact with members of the Association and engage on some of the pertinent issues affecting infrastructural development in the country, as well as propose solutions regarding the implementation of structures which will enable and empower the Nigerian DCM to act as a panacea for these issues.

FMDQ remains committed to working with its stakeholders to further develop the Nigerian economy.

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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), Bonds (FGN bonds, Other bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)), Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories respectively. 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 between the Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

FMDQ OTC Market Turnover (January - February 2016)

	Turnover (₦'mm)
Foreign Exchange	2,794,635
Foreign Exchange Derivatives	846,771
Treasury Bills	4,410,928
FGN Bonds	1,975,474
Other Bonds*	21,923
Eurobonds	18,390
Repurchase Agreements/Buy-Backs	3,462,416
Unsecured Placements/Takings	380,805
Money Market Derivatives	-
	13,911,342
USD equivalent (mm)	*70,167*

No. of Business Days	40
Average Daily Turnover	347,784
USD equivalent (mm)	*1,754*

mm - million

Note: USD/₦ @ 198.26

**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*

Note: Figures may be subject to change due to potential adjustments from Dealing Members

Source: FMDQ Data Portal as @ March 4, 2016; Figures reported by Dealing Members on a week-ending basis

Turnover activity at the Exchange worth ₦6.6trn, in the FMDQ fixed income and currencies markets, was reported for the month of February 2016. Trading activities in T.bills contributed the largest to overall turnover, accounting for 35.67%, secured market transactions (Repos/Buy-backs) accounted for 25.54%, while FX market transactions accounted for 23.89%, FGN bonds contributed 12.42% and Unsecured lacements/Takings, 2.15%.

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Top Ten (10) Dealing Member (Banks) in FMDQ Market for February 2016

The FMDQ League Table shows the rankings of its Dealing Member (Banks), and the cumulative value across all products traded on the Exchange platform.

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

The top ten (10) Dealing Member (Banks) for February 2016 accounted for 77% (₦5.0trn) of the overall turnover in the market, with the top three (3) accounting for 38% (₦2.8trn) of this sub-section of the market. Diamond Bank PLC, Access Bank PLC and United Bank for Africa PLC emerged as the leaders in value traded for the overall OTC market, occupying 1st, 2nd and 3rd places respectively.

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FMDQ Learning

Introduction to Eurobonds

What is a Eurobond?

A Eurobond is a type of an international bond that is denominated in a currency not native to the country where it is issued. Eurobonds are often named after the currency they are denominated in e.g. Eurodollar and Euroyen bonds refer to bonds denominated respectively in US Dollars and Yen.

The term Eurobond, was coined by Julius Strauss, with its conception resulting from international financiers reacting to the Interest Equalization Tax imposed by the United States (US) government (in July 1963) to restrict US investors from investing abroad by taxing the purchase of foreign securities. The first Eurobond was issued in 1963 by Autostrade (the Italian road network) – a $15.00mm, 5.50%, 10-year bond – and was listed on the Luxembourg Stock Exchange.

With reductions in trade and financial barriers, governments and corporations have found Eurodollar bonds to be a very attractive means of raising funds for financing infrastructure projects (needed to stimulate their economies) or business expansion, due to its low cost of financing and ease of issue. These bonds are also popular because they are tax free and virtually free of regulation by any government. In more recent times, developing economies have increasingly resulted to issuing Eurobonds as additional sources of finance to support development. Ghana, in 2007, successfully issued its first Eurobond – $750.00mm, 8.50%, 10-year; in a bid to fund infrastructure projects and restructure its public debt. Nigeria's first entry into the Eurobond market took place in January 2011 with a $500.00mm, 6.75%, 10-year bond. The purpose of this maiden issue (which put the country on the global financial map) was not only to fund development projects, but also establish transparent and observable benchmarks for international investors and local companies to accurately price risk. Since then, a number of Nigerian corporates (banks) have taken advantage of the Eurobond market to issue debt instruments for the purpose of raising funds to finance oil, power and infrastructure projects. Some of these have been have been highlighted below:

ISSUER	ISSUE YEAR	NOTIONAL VALUE ($'mm)	COUPON RATE (%)	TENOR (Years)
Guaranty Trust Bank Plc	2011	500.00	7.50	5
Access Bank Plc	2012	350.00	7.25	5
Fidelity Bank Plc	2012	300.00	6.88	5
First Bank of Nigeria Limited	2013	300.00	8.25	7

Eurobonds afford issuers the flexibility of choosing the location in which to issue and list their bonds in accordance with the location's governing regulation). Some issuers have taken to dual-listing their Eurobonds (i.e. listing on more than one exchange), a case in point being the Republic of Ghana's last three (3) Eurobonds, which have been listed on both the Irish Stock Exchange (ISE) and Ghanaian Stock Exchange (GSE). Some benefits of dual-listing are noted below:

- It provides an issuer access to a wider and diverse range of prospective investors, consequently allowing the opportunity for increased active trading of the bond
- It increases liquidity and improves the bid-ask spread for bonds by providing more competition
- Depending on the geographical locations of the exchanges, a bond dual-listed can benefit from extended trading when one of the exchanges has closed for the day and the other remains open (applicable where both exchanges are in different time zones)

Advantages of Eurobonds

- **Low Cost to Issuer**: Eurobonds are usually not subject to taxes or regulations of any one government, therefore in comparison to other debt markets, it is usually cheaper to borrow in the Eurobond market. Also when compared to a foreign currency bank loan, or bilateral and multilateral loans, Eurobonds are not subject to the same stringent terms and conditions. Since Eurobonds are normally aimed at institutional investors, there are no advertisement costs involved therefore further reducing overall issue cost to the issuing firm/government

- **Financing Alternative**: Eurobonds offer a way for governments and companies to obtain financing in tough economic situations where financing is hard to source. Issuing Eurobonds give issuers wider access to the international market, which may normally not accessible to the issuers, while affording issuers the opportunity to take advantage of favourable regulatory and lending conditions in other countries

- **Asset and Liability Management**: Eurobonds afford companies a cost effective means of obtaining funds in a foreign currency, in order to create a foreign currency liability to match against a foreign currency asset

- **Benchmarking Debt/Risk**: Eurobonds have helped governments establish debt/risk benchmarks, which is helpful for domestic enterprises planning to fund business activities from overseas sources. The issuance of Nigeria's first global sovereign bond in foreign currency (earlier mentioned), together with its favorable credit rating, helped and encouraged Nigerian companies to borrow at competitive rates from international financial markets. Furthermore, access to longer-term US Dollar funding has helped domestic corporates finance economic activities that in turn contribute to the country's economic growth

Disadvantages of Eurobonds

- **Restrictive Covenants**: Bond covenants, which are legally binding terms in an agreement between a bond issuer and a bondholder, can be very restrictive in nature. Some restrictive clauses on Eurobonds can, for example, prevent issuers from issuing other bonds, limit their ability to make new capital investments, pay out dividend, or engage in merger and acquisition (M&A) activities for the period that the Eurobond remains outstanding

- **Foreign Exchange Risk Exposure**: The currency difference between the bond issued and the bond issuer's location of operation, introduces the risk of exposure to foreign exchange fluctuations. To mitigate against this, it is therefore imperative that payment obligations from a Eurobond is matched against corresponding receivables from an asset (with the same currency as the bond)

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