



FMDQ SPOTLIGHT

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FMDQ
OTC Securities Exchange
...empowering the Nigerian debt capital & FX markets



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FMDQ Launches Process for Onboarding of FX Corporate Clients on its Website

Following the Central Bank of Nigeria's (CBN's) drive to restore confidence in the Nigerian foreign exchange (FX) market and consequently boost the liquidity via additional inflows into the market, the apex bank had issued a directive to all Authorised Dealers mandating that they execute all FX trades with their corporate clients only through the FMDQ-advised Trading & Surveillance System.

FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange), having the same transparency and growth objectives for the Nigerian FX market, to facilitate this process, has launched the corporate institutions' onboarding process to ensure the seamless integration of both local and international corporate institutions onto the Thomson Reuters FX Trading and Auction Systems.

The System, which is the FMDQ-Thomson Reuters FX Trading System (TRFXT) has been deployed to, among other things, enhance system-based dealing for FX (trading) and provide the needed credibility and transparency for all FX trades. In addition, this System provides surveillance functionality, lending itself as an indispensable tool for the financial market regulator, as well as FMDQ, to effectively and efficiently monitor and organise the Nigerian FX market.

Details of the [FX Onboarding process](#) for local and international corporate institutions, along with the associated [application forms](#) are available on FMDQ's website at www.fmdqotc.com. Kindly contact the FMDQ Business Origination Group at bog@fmdqotc.com for more information.

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Naira-Settled OTC FX Futures Market: One Year in Review, as 12th Contract Settles on FMDQ

Following its launch in June 2016, the Naira-settled OTC FX Futures market has remained pivotal in the Nigerian FX market as an innovative risk management product and continues to provide a feasible means for businesses and corporates to hedge their FX risk exposures. Having consistently provided the means for these businesses and corporate institutions to enhance their business planning, among other key benefits, with about \$7.00bn worth of contracts so far executed between the CBN and Authorised Dealers (Banks), on behalf of their clients and themselves, on FMDQ, the resilience in maintaining this market and ensuring its viability and sustainability have remained of paramount importance to the CBN, other market participants and FMDQ.

The CBN has remained consistent with its support of the operations of the OTC FX Futures market by continuing to offer OTC FX Futures contracts for the past year, replacing matured contracts and actively refreshing its quotes on the contracts on a monthly basis. Whilst the OTC Exchange, along with the FMDQ-designated clearing agent for the OTC FX Futures contracts, the Nigeria Inter-Bank Settlement System PLC, have facilitated the seamless and timely settlement of all matured OTC FX Futures contracts, as well as the general daily operations of the market to ensure its smooth and efficient running of the market. The first year of the OTC FX Futures market has also seen the development and launch of the new fixing for the market, by FMDQ, the NAFEX – Nigerian Autonomous FX Fixing – which is the FMDQ reference rate for foreign exchange activities in the recently introduced FX window by the CBN, the Investors’ & Exporters’ FX Window.

In keeping with the progress of this development, the 12th OTC FX Futures contract – NGUS JUN 21 2017, which marked the 1-year launch of the Naira-settled OTC FX Futures market, matured and settled on Wednesday, June 21, 2017. The matured contract, which settled at the NAFEX rate of \$/₦368.83, had, for the first time in the 1-year operations of the Naira-settled OTC FX Futures market, contract holders transact at rates below the settlement rate at the maturity of the contract, resulting in a net payout to the CBN. Specifically, holders of the NGUS JUN 21 2017 contract that entered into the trade at the CBN-offered monthly rates from October 2016 (at \$/₦270.50) through to May 2017 (at \$/₦385.06) had to make this net payout to the CBN. This lays credence to the efficiency of the OTC FX Futures market, adding credibility of the market and the framework and operational guidelines as developed and documented by FMDQ in support of the running of the market. It further serves to instill even greater confidence to the foreign and Nigerian portfolio investors and other market participants, on the transparent nature of the activities in this market, as well as demonstrating the effectiveness in and indeed importance of risk management for the Nigerian FX market.

Therefore, even as the apex bank, Authorised Dealers and FMDQ, among others, display their determination to maintain FX market stability and create an environment conducive for investors, exporters, traders and other end-users, the Nigerian FX market continues to undergo reforms as well as the introduction of key market development initiatives, thereby experiencing a gradual move towards regaining its vibrancy. All market stakeholders must play their respective parts with diligence to support the potential of these market development initiatives and reforms to ensure success.

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Sterling Bank and FSDH Quote ₦16.18bn Worth of Commercial Papers on FMDQ

FMDQ has admitted for quotation, the Sterling Bank PLC Tranche B ₦2.08bn Series 2 and ₦105.00mm Series 3 Commercial Paper (CP) Notes under its ₦100.00bn, as well as the FSDH Merchant Bank Limited ₦2.01bn Series 3 and ₦12.40bn Series 4 CP Notes under its ₦30.00bn CP Programme, a combined total of ₦16.18bn worth of CPs, on the platform in the month of June 2017.

The successful admittance of these issues follows the due approvals obtained from the FMDQ Board Listings, Markets and Technology Committee, and attests to the efficient and uniquely tailored Listings and Quotations service offered by FMDQ. From the continuous provision of invaluable information to global visibility, improved secondary market liquidity, efficient price formation and unique transparency, the activities and value-adding services of the OTC Exchange continue to be experienced by businesses, corporate and government entities with debt securities listed/quoted on FMDQ.

As part of FMDQ's commitment to organise, govern and enforce credibility and transparency in the debt capital markets space, the OTC Exchange has, through its innovative practices and the concerted efforts of its stakeholders, positively influenced the competitiveness of the Nigerian financial markets.

FMDQ shall continue to strive to ensure the markets under its purview emerge as globally competitive, operationally excellent, liquid and diverse. Through the continued support for institutional growth, the OTC Exchange shall invariably contribute its quota towards the nation's economic recovery.

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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 – FX, Treasury Bills (T.bills), Bonds (Federal Government of Nigeria (FGN) Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)), Commercial Papers and Money Market (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 - May 2017)

Product Category	(₦'mm)	(\$'mm)
Foreign Exchange	4,675,640	14,912
Foreign Exchange Derivatives	6,828,545	21,796
Treasury Bills	25,852,453	82,675
FGN Bonds	4,567,987	14,625
Other Bonds*	1,631	5
Eurobonds	46,157	148
Repurchase Agreements/Buy-Backs	12,219,340	39,083
Unsecured Placements/Takings	542,689	1,732
Money Market Derivatives	14,400	46
Commercial Papers	-	-
Total	54,748,842	175,021

<i>No. of Business Days</i>	104	104
<i>Average Daily Turnover</i>	526,431	1,683

Average \$/₦ @ 312.70

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)

Source: FMDQ Data Portal as @ Jun 2, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

The month of May 2017 recorded ₦9.49trn in turnover, a growth of 7.90% when compared to ₦8.79trn recorded in April 2017, bringing the total year-to-date turnover to ₦54.75trn. The month-on-month (MoM) growth was primarily driven by increased trading activities experienced in the FX (Spot) and Repurchase Agreements (Repos)/Buy-Backs product categories. However, a minimal growth of 4.00% was experienced in the T.bills product category, which continues to make up the largest share of the overall turnover, accounting for 47.22% of the market.

Repos/Buy-backs transactions also continue to make up the second largest share of total turnover, accounting for 22.32%, whilst FX market transactions accounted for 21.01%, Bonds, 8.43%, with Unsecured Placement & Takings, Money Market Derivatives and Commercial Papers representing circa 1.00% of the overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January – May 2017)

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

RANK	DEALING MEMBER (BANK)
1	ACCESS BANK PLC
2	STANBIC IBTC BANK PLC
3	ECOBANK NIGERIA LIMITED
4	UNITED BANK FOR AFRICA PLC
5	FIRST BANK OF NIGERIA LIMITED
6	DIAMOND BANK PLC
7	STANDARD CHARTERED BANK NIGERIA LIMITED
8	GUARANTY TRUST BANK PLC
9	CITIBANK NIGERIA LIMITED
10	FBN MERCHANT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 70.13% (₦38.39trn) of the overall turnover in the market, with the top three (3) accounting for 45.89% (₦17.62trn) of this sub-section of the market. Access Bank PLC, Stanbic IBTC Bank PLC (previously occupying 3rd place) and Ecobank Nigeria Ltd. (dropping from 2nd place) topped the League Table ranking 1st, 2nd and 3rd respectively, in the value traded for the overall over-the-counter (OTC) market. United Bank for Africa PLC and First Bank of Nigeria Ltd. maintained their positions in 4th and 5th places respectively when compared to the previous month, while Diamond Bank PLC moved up the League Table to occupy 6th place from 7th, swapping positions with Standard Chartered Bank Nigeria Ltd. now occupying 7th place. In the same vein, Guaranty Trust Bank PLC moved from 9th place to 8th, with Citibank Nigeria Ltd. also moving up from 10th place to now occupy 9th, while FBN Merchant Bank Ltd. dropped from 8th place to occupy 10th place.

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Fundamentals of Derivatives – Part 3

This piece is the third and final part of our three (3)-part series on ‘Fundamentals of Derivatives’. Part 1 ([published in the FMDQ Spotlight - April 2017 edition](#)) explored the features and types of this important asset class, as well as the key concepts that feature prominently in derivatives transactions. Part 2 ([published in the FMDQ Spotlight – May 2017 edition](#)) focused on the various uses of derivatives as well as the major risk considerations. This final part explores the Nigerian derivatives market, with a focus on its structure, key players, and traded product(s).

Structure and Key Players in the Nigerian Derivatives Market

Derivatives in Nigeria are largely traded OTC with an organised Exchange such as FMDQ OTC Securities Exchange, providing, among other responsibilities, the requisite trading platform(s), as well as information and governance/regulation services to ensure the efficient operation of the market. Specifically, FMDQ, apart from providing the appropriate trading system(s), collects and distributes relevant data, sets trading rules and standards, and conducts market surveillance activities. The OTC Exchange, for instance, has its Dealing Member (Banks) authorised to buy and sell derivatives products on behalf of their clients, as well as trade same amongst themselves, and have to abide by the set market framework, rules and standards to ensure credibility in the market. There are also investors, comprising of fund/asset managers and corporate treasurers, with varied investment interests ranging from risk management, to business planning, who participate in this market. On the other hand, market regulators play a critical role in the smooth functioning of the derivatives market. The Securities and Exchange Commission (SEC) holds the primary responsibility of regulating the Nigerian capital market to ensure efficiency and growth and derivatives products fall within this purview. Likewise, there is the CBN, also a regulator in the derivatives market given that some of the derived products (such as the FX and interest rate derivatives) fall within the regulatory jurisdiction of the apex bank.

Derivatives Products in Nigeria

As detailed in [Part 1](#) of this series, there are three (3) major types of derivatives products: futures/forwards, options and swaps. These products can be traded in most financial markets, subject to approvals of regulatory authorities and the level of market sophistication. The CBN had in March 2011, commenced FX forwards transactions towards improving the effectiveness of financial markets in monetary policy implementation, deepening the Nigerian FX market and enhancing the FX risk management options in Nigeria. These transactions were executed through the Wholesale Dutch Auction System – Forwards (WDAS-FWD), with commercial banks as primary dealers who traded in the FX forwards market. In the OTC market, banks also offer to their clients and trade amongst themselves, forwards and options products. These markets are, however, in their nascent stages of development with considerable room to grow astronomically.

More recently, in June 2016, the CBN launched the innovative and much-welcomed Naira-settled OTC FX Futures product to address the risk management desires of the Nigerian FX market. FMDQ, as the OTC FX Futures Exchange, has been instrumental in the provision of the requisite market structure and platform to facilitate the successful launch, implementation and indeed sustained success of the OTC FX Futures market. The Naira-settled OTC FX Futures are non-deliverable forwards (i.e. contracts where parties agree to an exchange rate for a predetermined date in the future, without the obligation to deliver the underlying notional US Dollar amounts on the respective contract maturity/settlement dates. Detailed illustration on how the Naira-settled OTC FX Futures market works is available on FMDQ's website through this [Link](#).

The OTC FX Futures market kicked off with the CBN as the pioneer seller of the OTC FX Futures contracts; offering non-standardised amounts for different tenors, from one (1) month through to twelve (12) months to Authorised Dealers (banks), who in turn offer same to their clients with trade-backed transactions or who may trade same with other Authorised Dealers. The FMDQ OTC FX Futures Trading & Reporting System and the Market Framework and Operational Standards, all developed by the OTC Exchange, serve to provide the requisite infrastructure to support transparency and governance for the success of the market. In addition, the FMDQ-designated clearing agent, the Nigeria Inter-Bank Settlement System PLC, acts as the clearing and settlement infrastructure for the margining and settlement of the OTC FX Futures contracts. As at June 29, 2017, 12 (twelve) contracts have matured and settled over 12 months, with a total of about \$7.00bn worth of contracts so far traded on FMDQ.

The opportunities for growth in the Nigerian derivatives market are enormous, and still in 2016, FMDQ championed a feasibility study to establish the preparedness of the Nigerian financial markets for the introduction of various derivatives products into the Nigerian market. With the findings of the study being set out via stakeholder engagements to drive the next steps, and the regulatory landscape also gradually taking shape to support the anticipated market development, knowledge interventions are in turn being implemented by the OTC Exchange to build the human capital needed to develop and sustain a robust derivatives market. Steps are also being taken by FMDQ, as well as other key market stakeholders, towards putting the requisite market infrastructure in place to support the seamless trading and clearing of all kinds of derivatives products in Nigeria.

Derivatives have assumed very wide acceptability and applications in global financial markets, and the Nigerian financial markets are commendably taking a cue from this. The Nigerian derivatives market is evolving, and the success recorded by the Naira-settled OTC FX Futures product is only indicative of the enormous development to follow in the market.

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