

The Invisible Infrastructure of Market Confidence: Why Clearing and Settlement Matter



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Financial markets are usually judged by what is visible: the capital raised, the trades executed and the prices discovered. Yet every one of those transactions rests on a quieter layer of infrastructure that determines whether it is completed as agreed. That layer is clearing and settlement, and its quality shapes how much confidence investors place in a market.

The global experience is instructive. After the 2008 financial crisis showed how quickly unmanaged counterparty exposures could spread, G20 leaders committed in 2009 to move standardised over-the-counter derivatives into central clearing. In 2012, the international standard-setters for payments and securities markets, now known as Committee on Payments and Market Infrastructures – International Organization of Securities Commissions (CPMI-IOSCO), published the Principles for Financial Market Infrastructures (PFMI), today the global benchmark for clearing houses and settlement systems. The lesson from leading markets is consistent: post-trade infrastructure is not a back-office function but a strategic asset, and it is widely recognised as a precondition for deep domestic and foreign participation.

As Nigeria's financial markets continue to evolve, the need for robust, efficient post-trade infrastructure is clearer than ever. While a market may facilitate transactions, its long-term credibility depends on how effectively it manages ensuing obligations, mitigates risk, and ensures timely settlement, cornerstones of sustained market confidence

Confidence Does Not End at Execution

Trade execution is a milestone, not the end of a transaction. Once a trade is agreed, each side must deliver: securities or currency must move, funds must be paid, and the exposure between the parties must be managed until they do. If one side fails in that window, the other faces a loss and, in a connected market, one failure can quickly trigger others.

It helps to distinguish two stages. Clearing is the process of confirming, calculating and, where a central counterparty is involved, guaranteeing the obligations that arise from a trade. Settlement is the final exchange of cash and securities, ideally on a delivery-versus-payment (DvP) basis, so that neither side gives up its asset without receiving the other's, and with legal finality, so that a completed transfer cannot be unwound. Clearing ensures that obligations will be met; settlement is the moment they are.

Managing Risk, Strengthening Resilience

Markets operate on the shared assumption that participants will honour their obligations. Resilient markets do not rely on that assumption alone; they build mechanisms for the occasions when it fails.

The central counterparty ("CCP") is the most important of these mechanisms. A CCP steps into each cleared trade, becoming the buyer to every seller and the seller to every buyer. Instead of assessing the creditworthiness of every counterparty, participants face a single, well-capitalised and closely supervised institution. The CCP backs that promise with a layered defence: initial and variation margin collected from clearing members, a mutualised default fund, its own capital placed at risk and default-management procedures rehearsed in advance. If a member fails, its positions are closed out or transferred in an orderly way, and the loss is absorbed within this structure rather than passed on to the rest of the market.

This matters more as markets grow in volume, complexity and participation. A CCP must therefore look ahead, stress testing its resources against extreme but plausible market conditions, so that it can keep its promises during periods of turmoil and not only on ordinary days.

Efficiency Matters

Sound post-trade infrastructure also makes markets more efficient. Through netting, a CCP collapses many gross obligations into far fewer net payments, reducing the liquidity each

participant needs to settle. Standardised processes reduce operational errors and settlement failures, and certainty of settlement allows firms to put their capital to more productive use.

For investors, the assurance that a trade will settle as agreed directly influences their willingness to participate. For the wider financial system, reliable settlement supports orderly markets and the smooth movement of capital. Clearing and settlement should therefore be treated not as operational plumbing, but as part of the architecture that allows markets to keep their promises.

Building Infrastructure for a Growing Market

Nigeria's markets are becoming more sophisticated, with a broader range of instruments, more diverse participants and closer links to international capital. That progress brings new demands. Digitalisation, cybersecurity threats, new asset classes from derivatives to digital tokens and growing interdependence between domestic and international financial systems are all reshaping post-trade risk. Infrastructure must be built not only for higher volumes but for this greater complexity.

This is the role FMDQ Clear was established to play. As a CCP registered and licensed by the Securities and Exchange Commission, Nigeria, FMDQ Clear applies the risk management tools described above, namely margining, a default fund and structured default management, to de-risk the Nigerian financial market. In doing so, it provides the post-trade assurance a growing market needs, making sure that obligations entered into at execution are met in full and on time. Through FMDQ Clear, FMDQ is building infrastructure that supports confidence, efficiency and resilience, and protects market integrity well beyond the point of trade.

No single institution can achieve this alone. Resilient infrastructure requires regulators, market operators, technology providers and participants to work together on common standards, harmonised processes and consistent benchmarks, and FMDQ remains committed to that shared effort.

From Transactions to Trust

The true value of clearing and settlement is most evident in its seamlessness, when it operates so efficiently that its presence is felt only in the confidence it inspires.

When transactions settle seamlessly, risks are proactively managed, and obligations are reliably fulfilled, post-trade infrastructure becomes almost invisible, yet its reliability is the very metric by which its importance is measured.

As Nigeria seeks to deepen its financial markets, attract greater investment, and solidify its position in the global financial system, our collective focus must extend beyond transaction execution to the effectiveness and reliability of transaction completion.

Strong markets demand more than capital and participation; they require infrastructure that consistently transforms transactions into completed obligations and, ultimately, sustained market confidence.

“The true strength of a financial market is measured not only by trade volumes, but by the collective confidence with which those trades are completed.”

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