



NIBOR

The Nigerian Inter-bank Offered Rate Fixing Methodology

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1. INTRODUCTION

This document provides a summary of the methodology FMDQ Securities Exchange Limited (“**FMDQ Exchange**” or the “**Exchange**”) applies to establish the Nigerian Inter-bank Offered Rate Fixing (“**NIBOR**” or the “**Benchmark**”).

2. BACKGROUND

FMDQ Exchange has a mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy. This mission is achieved by providing the secondary market with world-class market governance and development services to the benefit of all stakeholders and in support of the objectives of the financial services regulators. Consequently, FMDQ Exchange is committed to developing and publishing independent and transparent benchmarks which are designed to be reflective of the market at the time of the determination and promote transparency in the markets.

FMDQ Exchange benchmarks meet the requirements of domestic regulations as well as the International Organisation of Securities Commissions (“**IOSCO**”) Principles for Financial Benchmarks (“**PFB**”) on governance, quality of the methodology and accountability mechanisms.

NIBOR represents the short-term lending rates of reputable banks in the Nigerian inter-bank market quoted as annualised rates. NIBOR is an independently and objectively generated Fixing which is published every business day at a specific time.

2.1. Uses of NIBOR

NIBOR is an essential component of the Nigerian financial system and will benefit the Nigerian economy, particularly the financial industry, in several ways, including:

- Serving as the floating rate for many financial contracts, from interest rate swaps to loans, mortgages and corporate funding instruments
- Serving as a benchmark for the settlement of fixed income and interest rate derivatives
- Promoting transparency and awareness of the market driven lending rates
- Enabling foreign and local investors benefit from a market-driven independent reference rate
- Developing hedge products and derivatives, thus improving the standard of the Nigerian money market
- Providing growth and income potential for market players through the trading of hedging products
- Serving as a benchmark for portfolio valuations, conversions, performance measurement and audits
- Serving as an important indicator for the Central Bank of Nigeria in determining its official interest rate target and other monetary actions

2.2. Key Considerations

2.2.1. *Benchmark Administrator*

FMDQ Exchange is the benchmark administrator for NIBOR and thus, has primary responsibility for all aspects of the benchmark determination process. This process includes the development, determination, dissemination, operations and governance of NIBOR.

2.2.2. **Active Market**

FMDQ Exchange recognises that to enable the publication of a meaningful benchmark, a market for money market trading must genuinely exist and that market must be active. However, the economic realities will dictate the relative meaning of 'active', as market liquidity can vary significantly at different times of the day or in specific product categories and markets. FMDQ Exchange applies the IOSCO PFBs 7 & 8 – “Data Sufficiency” & “Hierarchy of Data Inputs” in determining thresholds for an “active market”.

2.2.3. **Data Sourcing**

FMDQ Exchange shall use transactional data entered into on an arm’s length basis between “placers” and “takers” in the market, where such data is available and reflects sufficient liquidity. In a market where liquidity levels are low, the benchmark may be based predominantly or exclusively on contributed quotes from Reference Banks on FMDQ Exchange’s designated system for NIBOR input submissions.

2.2.4. **Governance and Transparency**

FMDQ Exchange is subject to a corporate risk framework which is based on three (3) lines of risk management:

- i. Business procedures and controls are designed to promote consistency throughout the process.
- ii. The application of independent governance, reporting and risk management. The FMDQ Exchange Board of Directors and relevant Board Committee are responsible for oversight of the benchmark administration service, including reviewing and advising on the policies and methodologies by which FMDQ Exchange calculates, manages and publishes the benchmarks.
- iii. FMDQ Exchange has established Benchmark Oversight Committee (the “**Market Review Committee**”) to which the responsibility for the management and oversight function of the FMDQ Benchmarks has been delegated by the Board.

2.2.5. **Exercise of Expert Judgment**

FMDQ Exchange may exercise discretion with respect to the use of data in determining the Benchmark. The calculation of the Benchmark includes a validation process whereby, among other steps, FMDQ Exchange reviews data and rates pursuant to certain pre-determined tolerance checks. When applying tolerance checks, FMDQ Exchange shall have the discretion (*subject to internal policies and procedures*) to include or reject certain data from the calculation of the Benchmark. Based on FMDQ Exchange’s experience in interpreting market data, FMDQ Exchange will apply expert judgment, when necessary, in the computation and publication of the Benchmark to ensure its integrity. FMDQ Exchange has put in place internal guidelines quality control procedures that govern the application of expert judgment to provide consistency and oversight to this process.

2.2.6. **Frequency of Reviews**

FMDQ Exchange shall conduct an annual review of the NIBOR methodology to ensure that the approach adopted towards calibrating the rates considers market trends and characteristics. FMDQ Exchange shall also undertake ad hoc reviews of the Benchmark methodology as may be required.

3. FIXING DYNAMICS

3.1. Fixing Methodology

NIBOR quotes shall be determined as detailed below. Reference Banks are required to submit rates in answer to the NIBOR question:

“At what rates could you borrow and lend funds, were you to do so by giving inter-bank bids and offers in a reasonable size just prior to 1:00 PM?”

“Reasonable size” for the purpose of NIBOR submissions shall be between ₦2.00bn – ₦5.00bn. Although Reference Banks are advised to use transaction data to anchor their submissions, having a polled rate is crucial to ensuring the continuous publication of such a systemic benchmark, even in times of low liquidity and when there are few transactions on which to base the benchmark. Reference Banks shall quote bid and offer rates for NIBOR benchmark tenors as follows: **Overnight (ON), one (1), three (3) and six (6) months** at the time of each poll.

3.1.1 NIBOR shall be polled, calculated and published using a trimmed arithmetic mean from the submission of quotes. Upon receipt of quotes from the Reference Banks, offers are ranked in descending order. The highest and lowest 20.00% are eliminated from the ranked quotes leaving only the middle 60.00%. The trimming of the top and bottom 20.00% allows for the exclusion of outliers from the final calculation. The arithmetic mean of the remaining quotes shall then be calculated to four (4) decimal places and disseminated as the NIBOR by 2:00 PM daily.

3.1.2 Where FMDQ Exchange receives fewer than the required number of submissions by the time NIBOR is due to be published, the reduced submissions methodology detailed below shall apply:

- i. NIBOR will be published provided that two (2) or more quotes are obtained on a daily basis.
- ii. The calculation methodology shall remain the same irrespective of the number of submissions received. However, under the reduced submissions methodology, the number of submissions excluded on the high and the low side (‘topped and tailed’) shall apply as detailed in the table below:

No. of Quotes Received	No. of Highest Rates Excluded	No. of Lowest Rates Excluded
6 – 9	1	1
2 – 5	0	0
1 or less	NIBOR not calculated and contingency Plan activated	

3.1.3 Where data remains insufficient by 2:00PM, FMDQ Exchange shall activate the NIBOR Contingency Plan as detailed below.

3.2. NIBOR Contingency Plan

3.2.1 In instances where the number of quotes received are below the documented threshold (i.e. one (1) or less quotes), the previous day’s NIBOR shall be maintained and published on the current day.

3.2.2 In circumstances of a force majeure event, leading to the unavailability of quotes in the market, the previous day’s NIBOR will be maintained and published on the current day.

3.2.3 Any republished rates from the previous business day shall be identified as such on the FMDQ Exchange e-Markets portal¹.

3.2.4 After five (5) consecutive business days of republishing the previous day’s NIBOR (in this case, the NIBOR of 5 business days prior), a Market Review Committee meeting shall be convened in a special session to

¹ Please contact the FMDQ Exchange Business Development Team – bdd@fmdqgroup.com for further information

devise a strategy for the appropriate determination of future NIBOR during the extreme market condition, towards preserving the continuity of the NIBOR publication.

4. PUBLICATION

NIBOR is available in three (3) packages – Real-time, 24-hour Delayed and Historical:

- **Live Fix:** Available at 2:00 PM daily via the FMDQ Exchange e-Markets portal
- **Delayed (24 hours):** Published via the FMDQ Group website²
- **Historical:** Available on the FMDQ e-Markets Portal

² www.fmdqgroup.com