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## **FMDQ Exchange Benchmarks Transition Policy**

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**FMDQ Securities Exchange Limited**

**January 2020**

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## Introduction

FMDQ Securities Exchange Limited (“**FMDQ Exchange**” or the “**Exchange**”) is a securities exchange with a mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy. FMDQ Exchange aims to achieve this mission by providing the secondary market with world-class market governance and development services. As part of this mission, FMDQ Exchange is committed to developing and publishing independent and transparent Benchmarks that are reasonably designed to be reflective of the market at the time of the determination of the Benchmarks, and which promote transparency in the financial markets.

FMDQ Exchange acts as an Administrator in line with the Principles for Financial Benchmarks (“**PFB**”) of the International Organisation of Securities Commissions (“**IOSCO**”) and currently administers three (3) Benchmarks (“the **FMDQ Exchange Benchmarks**”) in the Nigerian financial markets. The Benchmarks are listed below:

- (i) The Nigerian Inter-Bank Offered Rate (“**NIBOR**”).
- (ii) The Nigerian Inter-Bank Treasury Bills’ True Yields Fixing (“**NITTY**”).
- (iii) The Nigerian Autonomous Foreign Exchange Fixing (“**NAFEX**”).

In line with **Principle 13 (Transition)** of the IOSCO PFB, FMDQ Exchange has articulated this Policy to address circumstances in which it becomes necessary to either temporarily or permanently discontinue the calculation and publication of any of the FMDQ Exchange Benchmarks and/or Benchmark tenors due to circumstances within the purview of the conditions stated in Principle 13. As stipulated in **Principle 13 (Transition)** of the IOSCO PFB, the transition procedure should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference the Benchmark whilst considering the economic and financial stability impact that might result from the cessation of the Benchmark.

FMDQ Exchange recognises the importance and significance of the FMDQ Exchange Benchmarks to the strength and stability of the financial system. Therefore, in order to ensure the integrity of the FMDQ Exchange Benchmarks and provide for the continued stability of the financial markets, the Exchange has developed the program outlined in this Policy to be executed in the event of the possible cessation of any FMDQ Exchange Benchmark or one (1) or more of the FMDQ Exchange Benchmarks’ tenors. This Policy applies to scenarios in which it becomes necessary to either temporarily or permanently suspend the calculation and publication of an FMDQ Exchange Benchmark due to circumstances including but not limited to:

- Changes in underlying asset markets which result in the Benchmark (or specific Benchmark tenor) becoming less financially relevant or less feasible to produce accurately
- Prolonged execution of contingency scenarios that cannot be remediated within a reasonable timeframe, such as unacceptably low contributions

This Policy shall also apply to instances in which the Exchange may deem it appropriate or necessary to suspend the calculation and publication of any one of the FMDQ Exchange Benchmark and/or Benchmark tenors as a result of any Benchmark definition or calculation methodology changes. Consequently, in circumstances where an FMDQ Exchange Benchmark and/or Benchmark tenor is to be discontinued completely, FMDQ Exchange shall



define the period in which the relevant Benchmark and/or Benchmark tenor will continue to be produced to permit existing contracts/financial instruments to migrate to an alternative Benchmark if necessary.

Prior to external communication of the intention to activate the cessation procedure of an FMDQ Exchange Benchmark and/or Benchmark tenor, the FMDQ Exchange Market Review Committee (“MRC”), consisting of members of the FMDQ Exchange Management Team who perform the required due diligence on the FMDQ Exchange Benchmarks, shall evaluate the shortcomings of the affected Benchmark/ Benchmark tenor in representing its intended function and communicate accordingly to the market on its intention to cease (temporarily or permanently) the publication of the FMDQ Exchange Benchmark or FMDQ Exchange Benchmark tenor in question.

### **General Principles**

In designing, planning, and executing a transition from any of the FMDQ Exchange Benchmarks/ Benchmark tenors, the Exchange shall:

- Ensure it engages widely, the relevant stakeholders, recognising that the responsibility for a successful transition design, plan and execution lies not only with the Exchange, but with key stakeholders
- Conduct sufficient impact analysis to understand the scale and potential outcomes of any proposed changes or transition decisions
- Ensure all transition-related views and guidance of any relevant regulatory body, supervisory agencies and/or stakeholder are adequately analysed and integrated in the transition plan
- Encourage subscribers and stakeholders who have contracts/financial instruments that reference the affected Benchmarks/Benchmark Tenors to implement robust fall-back provisions

### **Transition Considerations**

In the event of the complete discontinuation of an FMDQ Exchange Benchmark or the cessation of one of the FMDQ Exchange Benchmark’s tenors, consideration shall be given to these key elements of the transition design and implementation:

*Identification of Alternative Benchmark(s)* – When identifying possible alternatives, FMDQ Exchange shall take into account feasibility of maintaining continuity with the existing FMDQ Exchange Benchmark/ Benchmark tenor and contracts/financial instruments that reference the existing Benchmark/ Benchmark tenors, the extent to which the alternative meets the needs of stakeholders and end-user, adherence to regulatory and industry Benchmark governance and design standards, and the impact of the use of the alternative on the financial markets and stakeholders. FMDQ Exchange shall also address scenarios in which no alternative Benchmark is identified, ensuring the transition plan takes this into consideration.

*Transition Paths* – The transition design shall be based on one (1) of three (3) transitions scenarios: (i) where the alternative Benchmark/Benchmark tenor can be considered to be an evolution of the extant FMDQ Exchange Benchmark/Benchmark tenor; (ii) where the proposed alternative Benchmark has marked distinct features relative to the current Benchmark; and (iii) where a controlled “wind-down” path is required as no alternative Benchmark /Benchmark tenor can be identified. The transition implementation plan may involve, depending on the size and scale of the transition, an immediate transition to an alternative



Benchmark/Benchmark tenor or a parallel transition period involving the maintenance of the current FMDQ Exchange Benchmark/Benchmark tenor alongside the calculation and publication of the proposed alternative Benchmark/Benchmark tenor. The transition paths and their respective durations shall be informed by any impact analysis conducted, the views of any stakeholder, regulatory authorities and supervisory agencies, legal risks associated with transition, and the complexity of the transition.

*Interim Arrangements* – If deemed necessary, FMDQ Exchange shall develop robust procedures and practices to ensure that the determination of the affected FMDQ Exchange Benchmark is continued over an interim period in order to permit existing contracts/financial instrument to be migrated to an alternative Benchmark.

*Legal, Regulatory, Accounting, and Tax Implications* – Consideration shall be given, when identifying feasible alternative Benchmarks and designing the transition path, to the legal risks involved in transition, including contract frustration, and the accounting and tax implications for end-users of transition to an alternative Benchmark.

#### **Stakeholder Consultation**

FMDQ Exchange shall engage stakeholders as early as possible, in the event a cessation of a Benchmark or Benchmark tenor appears highly likely. The stakeholder consultations shall be conducted in line with the FMDQ Exchange Stakeholder Consultation Policy. Consultations may be held during the planning, design, review, and implementation phases of the transition. Consultation topics may include the selection of alternative Benchmarks, differentiated impact assessments, required notice periods and transition durations, and provisions for the maintenance of the affected Benchmark/Benchmark tenor(s) during any interim transition period.