



# **Codified Rule Book for FGN Bonds**

**December 2014**

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## Introduction

These Codified Rules set out the market operations standards for the Federal Government of Nigeria (FGN) secondary bond market. These Codified Rules will guide the activities of FMDQ OTC PLC (FMDQ)-licenced Dealing Members.

This document contains the existing rules and regulations of Securities & Exchange Commission (SEC), Debt Management Office (DMO), and Central Bank of Nigeria (CBN) in relation to FGN Bonds which are being adopted by FMDQ in order to provide a holistic and comprehensive set of rules to be referred to as the FMDQ Codified Rule Book for FGN Bonds.

These Codified Rules will provide a reference for secondary market practices relevant to the Nigerian operating and regulatory environment. They shall be binding on all FMDQ Dealing Members who shall subscribe to them in their FGN Bond trading activities. These Rules will be read in conjunction with the General Market Rules, E-Bond Trading Rules, E-Bond Trading Infractions and Penalties Guide, Bond Listing & Quotation Rules, Membership Agreements, Market Bulletins and such other rules and guidelines (including amendments) as Securities & Exchange Commission (SEC), FMDQ OTC and other relevant regulatory authorities may introduce to the market from time to time.

Control of the activities of all Sponsored Individuals (treasury officers, dealers, treasury sales officers, market risk officers, treasury operations officers, compliance officers, internal control officers, treasury audit officers and any other relevant management and operational support staff) is the responsibility of the management of the Dealing Members (Members). Management should clearly set out in writing, the authorities and responsibilities within which their Sponsored Individuals should operate. These include but are not limited to the following:

- General dealing policies including reporting procedures
- Persons authorised to deal
- Products to be dealt in
- Risk management (counterparty risk, position and stop-loss limits etc.) and internal controls
- Confirmation and settlement procedures
- Relationships with Dealing Members and other market participants
- Other relevant guidelines as may be required by FMDQ from time to time

Management should also ensure that Sponsored Individuals are aware of their responsibilities to act professionally at all times, understand and comply with all legal & regulatory provisions applicable to the transactions under the FMDQ Platform.

### **Two-Way Quote**

Currently, the FGN Bonds are being traded on two-way quote basis. Whilst, rump stock bonds trade on one-way quote basis, indicative prices are provided for illiquid FGN Bonds in the Nigerian Inter-bank OTC market. The two-way quote dealing system is a system where a dealer gives both binding buying (bid) and selling (offer) prices on the same quote. This means the dealer is willing to buy at the bid and sell at the offer if the counterparty so pleases.

### **Benefits of the Two-Way Quote Trading System**

- Liquidity
- Price Discovery
- Market Depth
- Transparency
- International best practices
- Efficient and vibrant secondary market

### **Indicative Price**

Indicative prices are provided by Members to other market participants for the rump stock and short-dated bonds. FGN bonds that have less than N30bn in issue are regarded as rump stock bonds whilst short-dated FGN Bonds are those with less than one year term to maturity. Members are also required to provide regularly updated indicative prices on the FMDQ-advised Trading System, however, Members are not obliged to trade at the indicative prices.

### Codified Rule Book for FGN Bonds

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
<b>General Standards</b>	<b>Powers Exercisable</b>	4111	i. SEC and FMDQ shall be responsible for monitoring the activities of Dealing Members in the secondary market for FGN Bonds.	DMO	GRRS Sec. IIIb(1)
		4112	i. FMDQ may suspend Members acting in any manner contrary to these rules from dealing in the two-way quote market. ii. The suspension, which will be preceded by a written warning, may arise if cases of misconduct are established against the erring party. Any Member may also be suspended without a warning, if the misconduct is grievous. iii. The period of suspension may not exceed six (6) calendar months. iv. Notification of any member suspension should be made to the SEC within 24 hours.	FMDQ	
	<b>Committees</b>	4121	i. The FMDQ Disciplinary Committee and Board Regulation and Supervision Committee shall rule on disputes/infractions referred to them by Members, customers or the Market Surveillance & Members' Examination Unit of FMDQ on matters relating to dealing relationships, market standards and conduct of Members.	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
	<b>Rule Interpretation</b>	4131	i. These Codified Rules shall be read in conjunction with, and shall not be superior to any Laws, Decrees and Enactments of the Federal Republic of Nigeria or any directive(s) of the SEC and other regulatory and monetary authorities.	FMDQ	
	<b>Rule Applicability</b>	4141	i. These Codified Rules shall seek to establish a framework within which Members can trade FGN Bonds and develop a viable fixed income market in Nigeria.	FMDQ	
	<b>Rule Amendments</b>	4151	i. FMDQ shall file with and obtain the approval of SEC for any proposed amendment, repeal of or any addition to its Codified Rules before any action is taken on such amendment, repeal or addition by its Members or by any governing body thereof.	SEC	SRR Sec. 192(1)

Authorisations & Approvals for Membership	Eligibility Criteria		Dealing Members	DMO/FMDQ	
		4221	<ul style="list-style-type: none"> <li>i. Dealing Members shall be licenced by FMDQ and registered with SEC.</li> <li>ii. A prospective applicant shall be in full compliance with the requirements set forth by its regulator(s) before being considered for a Dealing Member licence by FMDQ.</li> <li>iii. A prospective Dealing Member shall not be in violation of any rules and regulations of any of its regulators.</li> <li>iv. Prospective Dealing Members shall demonstrate capacity to fulfill the Reporting, Technical, Organisational and Systemic &amp; Procedural requirements as stated in the DMO Operational Circular No 2: General Rules and Regulations Governing Primary Dealer Market Maker (PDMM) System in Federal Government of Nigeria (FGN Securities) as adopted by FMDQ.</li> <li>v. Notwithstanding the minimum capital requirement prescribed by any regulator, the minimum capital required from a prospective Dealing Member is N3billion in shareholders' funds, unimpaired by losses and excluding Revaluation Surplus, as at the last financial year-end before the date of application. This requirement must be supported by the Audited Accounts of the prospective Dealing Member.</li> </ul>		
		4222	<ul style="list-style-type: none"> <li>vi. Only Dealing Members shall be eligible to participate in Anonymous Firm Orders (AFO) on FMDQ-advised Trading Systems. The Dealing Members must participate in two-way quote for</li> </ul>		



Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>requests-for-quotes (RFQs) on FMDQ advised Trading Systems.</p> <p><b>Dealing Members shall;</b></p> <ul style="list-style-type: none"> <li>- be licenced by FMDQ and registered with SEC;</li> </ul> <p><b>Dealing Members – Non-Banks shall;</b></p> <ul style="list-style-type: none"> <li>vii. be registered with SEC and licenced by FMDQ;</li> <li>viii. have minimum shareholders’ funds unimpaired by losses and excluding revaluation reserves of the capital as prescribed by SEC at the last financial year prior to the date of application;</li> <li>ix. execute FMDQ Dealing Membership Agreement for Non-Banks and be bound by all the terms and conditions therein;</li> <li>x. have a settlement/clearing arrangement with one of the CBN-licenced banks;</li> <li>xi. trade directly with all FMDQ Members;</li> <li>xii. have a minimum of two (2 SEC-registered dealers to trade in FGN Bonds;</li> <li>xiii. have SEC-registered Sponsored Individuals in sales, market risk, operations, internal control and compliance functions in place;</li> <li>xiv. undergo interview process conducted by FMDQ before it can be admitted as a Dealing Member;</li> </ul>		

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>xv. be connected to the FMDQ-advised Trading Systems by completing all the necessary training, details and formalities prescribed by FMDQ;</p> <p>FMDQ will undertake a site visit to the dealing room of the prospective Member to ensure compliance with all above requirements.</p> <p>FMDQ Dealing Members (Banks and Non-Banks) must provide one-way quotes i.e. either bid or offer price to clients (whether or not an Associate Member – Client) in the agreed standard trade amounts advised by FMDQ. FMDQ Dealing Members are not obliged to quote for amounts larger than the standard amounts.</p>		
		4223	<p>i. Dealing Members that are licenced by FMDQ are obliged to quote in the two-way quote trading system.</p> <p>ii. Dealing Members Non-Banks are also obliged to quote in the two-way quote trading system.</p>	DMO  FMDQ	GRRS Sec. 2c (1) & (4)
	<b>Reporting Requirements</b>	4231	Dealing Members shall maintain such accounting and other records of their respective activities in the secondary	DMO	GRRS Sec. IVA(1)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>market as set forth by FMDQ and their respective regulators.</p> <p>Dealing Members shall comply with all reporting requirements as advised by FMDQ.</p>	FMDQ	FGMR
		4232	<p>Dealing Members shall file the reports in (a-b) below in an electronic form, with SEC within five (5) working days following the month under review:</p> <ul style="list-style-type: none"> <li>a. Monthly position statements for the Dealing Member's trading account based on total holdings, by trade date, of FGN bonds in the following categories: <ul style="list-style-type: none"> <li>i. Bonds maturing in 3 years or less</li> <li>ii. Bonds maturing between 3+ years and 5 years</li> <li>iii. Bonds maturing between 5+ years and 10 years</li> <li>iv. Bonds with maturities of 10+ years</li> </ul> </li> <li>b. Monthly secondary market trading activities in the Dealing Member's trading account with counterparts in the following categories: <ul style="list-style-type: none"> <li>i. Purchases and Sales with other Dealing Members;</li> <li>ii. Purchases and Sales with Pension Funds;</li> <li>iii. Purchases and Sales with other domestic clients; and,</li> <li>iv. Purchases and Sales with foreign institutions.</li> </ul> </li> </ul>	DMO	GRRS Sec. IVA(2)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4233	Dealing Members including those acting as custodians for foreign investors who participate in the domestic FGN Bonds market, shall file with the SEC and FMDQ, monthly bond holding positions by foreign investors for transactions in the secondary markets within five (5) working days of the end of each month, in the format set out in appendix 1.	DMO	GRRS Sec. IVA(4)
		4234	Dealing Members shall file with FMDQ, within one (1) week of each auction, its Subscription and Allotment at the Auction detailing participation by: <ul style="list-style-type: none"> <li>i. Own account</li> <li>ii. Banks</li> <li>iii. Discount Houses</li> <li>iv. Pension Funds</li> <li>v. Other Non-Bank Financial Institutions</li> <li>vi. Governments and Government Agencies</li> <li>vii. Foreign Investors</li> <li>viii. Other Institutions</li> <li>ix. Individuals</li> <li>x. Any other Report that may be requested by the FMDQ from time to time.</li> </ul>	DMO	GRRS Sec. IVA(5)
		4235	i. Dealing Members shall comment or make recommendations on policies, market conditions or other matters that relate to the secondary FGN Bonds market on approval of FMDQ. Dissemination of such	DMO	GRRS Sec. X(1)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			requests outside the bond trading department is prohibited.		
		4236	i. Dealing Members shall not make public highly confidential information concerning any government statistics or policies. The receipt of confidential information from any unauthorised source shall be reported to the Dealing Members' management and immediately reported to FMDQ by the appropriate officer of the Dealing Member	DMO	GRRS Sec. X(2)
		4237	i. Failure to comply with these mandates or the dissemination of confidential information may result in disciplinary action by FMDQ and other appropriate authorities	DMO	GRRS Sec. X(2)
	<b>Technical Requirements</b>	4241	Dealing Members, for the purpose of trading in FGN Bonds, shall provide for the following: <ul style="list-style-type: none"> <li>i. Trading and Sales Office with designated office space for Trading and Sales Officers (Treasury Client Relationship Managers); and</li> <li>ii. Customer Service locations.</li> </ul>	DMO	GRRS Sec. IVB(1)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4242	<p>Dealing Members shall have communications equipment consistent with maintaining communications with FMDQ, other Dealing Members and customers:</p> <ol style="list-style-type: none"> <li>i. Interconnected telephone system with at least two (2) lines per dealer, sales officer(s) and one (1) GSM line per dealer</li> <li>ii. E-mailing systems</li> <li>iii. Computers, printers, scanners and photocopiers</li> <li>iv. Financial calculators or programmes for calculating bond prices and Yield-To-Maturity</li> <li>v. Trading and data screen capabilities</li> </ol>	DMO	GRRS Sec. IVB(2)
		4243	<ol style="list-style-type: none"> <li>i. Dealing Members shall have internal technical capabilities for providing current and accurate information to Management, Dealers, Treasury Sales Officers, FMDQ and other regulatory authorities. Such information shall include, but are not limited to: <ul style="list-style-type: none"> <li>• Daily Inventory Position</li> <li>• Daily Profit and Loss</li> <li>• Daily Mark-to-Market Valuation</li> <li>• Trading Activity</li> <li>• Customer Activity</li> <li>• Credit review of current open trades with counterparties</li> </ul> </li> </ol>	DMO	GRRS Sec. IVB(3)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4244	Dealing Members are obliged to report and record their holdings and trading activities in FGN Bonds in a manner consistent with the provisions of the accounting standard(s) that may be prescribed by their respective regulators from time to time.	DMO	GRRS Sec. IVB(4)
		4245	<ul style="list-style-type: none"> <li>i. Dealing Members shall make their books open to the SEC who shall periodically embark on on-site inspections to Dealing Members' offices to ascertain compliance with the stated criteria.</li> <li>ii. Dealing Members shall be given fourteen (14) days within which to rectify any violation in this section, and if found unsatisfactory, FMDQ may invoke the actions stated in Rule 4472.</li> <li>iii. Dealing Members shall also make their books open to FMDQ who shall periodically embark on on-site inspections to Dealing Members' offices to ascertain compliance with regulatory provisions and its additional provisions.</li> </ul>	DMO	GRRS Sec. IVB(5)
	<b>Customer Requirements</b>	4251	Dealing Members' primary contact with a customer shall be through a treasury sales officers. Dealing Members shall have full responsibility for the actions of its treasury sales officers.	DMO	GRRS Sec. VI(1)
		4252	Dealing Members shall not refuse a request to bid at an auction or give a quote for FGN Bonds from clients,	DMO	GRRS Sec. VI(2)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			provided such clients meet their customer selection or acceptance criteria including due diligence requirements.		
		4253	<p>Dealing Members shall comply with the following rules for customer activities:</p> <ul style="list-style-type: none"> <li>i. All information concerning customer activity is confidential and should not be provided to any party outside the individual Dealing Member with the exception of fulfilling the appropriate reporting requirements or demands of regulators and/or order of a court of competent jurisdiction.</li> <li>ii. For secondary market trades where the customer is not part of the two-way quote market system, treasury sales officers shall make requests for customers' bids and/or offers to the appropriate dealers. They are required to relay the prices given by the dealers to the customer and immediately provide the customer's response back to the dealer.</li> <li>iii. The flow of prices and information shall be without delay. The treasury sales officer represents the customer for this purpose and must accurately reflect all requests and responses to the dealers in a timely fashion.</li> <li>iv. A treasury sales officer is not allowed to bid at an auction on behalf of a customer or trade for a</li> </ul>	DMO	GRRS Sec. VI(2)



Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>customer's account without proper authorisation by the customer.</p> <p>v. Standing orders may be placed by the customer and be subsequently filled by the dealer, but the completion of the trade must be reported immediately to the customer and the transaction details confirmed within twenty four (24) hours by a means mutually accepted by the Dealing Member and the customer.</p> <p>vi. A Dealing Member may decline a customer's RFQ where the customer has not complied with the Dealing Member's internal policies or procedures such as Know Your Customer (KYC) policy or where no limit (cash or credit) has been established for the customer or the request will lead to an excess in the customer's limit.</p> <p>vii. A refusal to bid for or trade with a customer should be made only after the deadline to bid or trade with the customer has been approved by the Dealing Member's management and the reason(s) should be disclosed to the customer.</p>		

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
	<b>Organisation Requirements</b>	4261	At the beginning of each calendar year, Dealing Members shall provide the SEC and FMDQ with an organisational chart of its bond trading department (Group or Division as may be applicable) and the names of Sponsored Individuals with management responsibilities for bond investments and trading activities. This list shall include the following: <ul style="list-style-type: none"> <li>i. All individuals with oversight responsibilities for investment and trading activities related to FGN bonds;</li> <li>ii. All individuals with authority to trade (buy or sell) FGN Bonds, including the manager of the relevant department; and</li> <li>iii. The manager for clearing and settlement operations.</li> </ul>	DMO	GRRS Sec. VI A(1)
		4262	<b>Organisation Structure</b> Dealing Members shall report any changes in the organisational chart and personnel to SEC and FMDQ within seven (7) working days of assumption of duty by such staff.	DMO	GRRS Sec. VI A(2)
		4263	Dealing Members shall not employ any individual who has been sanctioned in activities relating to the secondary FGN Bond market, or barred from securities investing or trading activities by any relevant regulatory authority.	DMO	GRRS Sec. VI A(3)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4264	<p><b>Ownership and Board</b></p> <p>A Dealing Member shall advise FMDQ in writing of material changes in its ownership and Board within 14 days of such occurrence.</p>	DMO	GRRS Sec. VI C
		4265	<p><b>Systems and Procedures</b></p> <p>i. A Dealing Member shall have policies and procedures for creating limits and monitoring same for self, customers and its FGN Bonds dealers. These include:</p> <ul style="list-style-type: none"> <li>a. Credit policy that describes procedures for establishing limits with customers including limits on repurchase agreements on a per customer or counter-party basis;</li> <li>b. Risk Policy procedures for establishing institutional position limits in FGN Bonds, and;</li> <li>c. Risk Policy procedures for establishing individual dealers position limits in FGN Bonds.</li> </ul> <p>ii. Policy on documentation and other procedures required for bidding for and trading with counterparties.</p> <p>iii. Compliance Policy that establishes a system of monitoring institutional and individual compliance to guidelines or circulars on investment and trading in FGN Bonds by their respective regulatory authorities, as well as in-house policies and procedures.</p>	DMO	GRRS Sec. VI B(1-3)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
	<b>Application Process</b>	4271	<ul style="list-style-type: none"> <li>i. Eligible institutions who wish to become Dealing Members in FGN Bonds may apply to FMDQ or in the cases where FMDQ invites applications from interested parties, respond to such invitations in the prescribed format.</li> <li>ii. Applicants shall meet the following criteria and others that may be prescribed by FMDQ from time to time: <ul style="list-style-type: none"> <li>a. be rated a minimum of B+ (or its equivalent) by any of the recognised international rating agencies (Standard and Poor's, Fitch or Moody's) or any other rating agency recognised by SEC;</li> <li>b. Participation in the primary and secondary markets for FGN bonds including the two-way quote market would be an advantage.</li> </ul> </li> <li>iii. The acceptance of an application and the issuance of a Dealing Member licence for FGN Bonds in the secondary market is at the discretion of FMDQ and subject to SEC approval.</li> </ul>	DMO	GRRS Sec. XI A(1)
		4272	<ul style="list-style-type: none"> <li>i. An applicant for membership or authorisation to perform one or more services shall apply to the FMDQ in the form and manner prescribed by FMDQ.</li> <li>ii. The application shall be accompanied by an application fee prescribed by the FMDQ.</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<ul style="list-style-type: none"> <li>iii. Where FMDQ requires the applicant to provide further information it may forward a request to the applicant to supply the information.</li> <li>iv. The request may include that one or more Sponsored Individuals of the applicant be interviewed by FMDQ.</li> <li>v. FMDQ has the sole discretion to accept or reject the application, or to accept an application subject to certain conditions being met.</li> <li>vi. FMDQ shall notify the applicant in writing of its decision and of any conditions that are required to be met.</li> <li>vii. An institution aggrieved by a decision of the FMDQ to reject an application to be admitted as a Member may appeal to the Board of FMDQ.</li> </ul>		
	<b>Termination of membership (Suspension and Revocation of Licence)</b>	4281	<b>Suspension of Licence</b> <ul style="list-style-type: none"> <li>i. FMDQ may suspend Members, acting in a manner contrary to these guidelines, from dealing in the FMDQ money market. Suspension, which will be preceded by a written warning, may arise if three (3) reported cases of misconduct are established against the erring party.</li> <li>ii. The written warning will be issued after the second offence. The period of suspension may not exceed</li> </ul>	FMDQ	DMA

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>six calendar months. SEC and CBN will be advised of this suspension from the market.</p> <p><b>Revocation of Licence</b></p> <p>i. The circumstances where the licence of a Dealing Member may be revoked include but are not limited to the following:</p> <ul style="list-style-type: none"> <li>a. it gives FMDQ sixty (60) days' notice in writing of its intention to terminate its membership. Such membership shall terminate at the expiration of the sixty (60) days' notice and all trades to which the Member is a Party shall be delivered, settled and/or cleared on the agreed settlement dates;</li> <li>b. it is wound up voluntarily;</li> <li>c. it has become insolvent;</li> <li>d. it is compulsorily wound up by order of the Court;</li> <li>e. the SEC and/or the CBN has revoked its registration/licence;</li> <li>f. it is unable to meet or has defaulted in its obligations under this Agreement;</li> </ul>		

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<ul style="list-style-type: none"> <li>g. it is proven that it has acted in an unprofessional and unethical manner in the Market.</li> <li>ii. Termination of membership shall not prevent FMDQ from collecting any accrued fees, dues, fines or charges due or arising from these Codified Rules or any other agreement executed between FMDQ and the Member.</li> <li>iii. FMDQ reserves the right to apply to the Courts to recover any fees, dues, fines or charges due or arising from these Codified Rules upon termination of its membership and/or take all necessary steps to protect any investor until such a time that all reported claims have been settled.</li> </ul>		
	<b>Notice to Members</b>	4291	<ul style="list-style-type: none"> <li>i. FMDQ shall file with SEC before issuing to Dealing Members a copy of any notice, circular, list, bulletin etc.</li> <li>ii. Such notices, circulars, lists, bulletins etc. shall be addressed to Director-General and delivered at SEC's head office.</li> <li>iii. Where SEC does not respond to the said material within 10 working days of the receipt thereof, FMDQ may issue it to its Dealing Members;</li> </ul>	SEC	SRR Sec. 186 (1-4)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			iv. a facsimile or other electronic copy of such notice may be sufficient, provided that there is evidence of receipt.		



<b>Obligations &amp; Rights</b>	<b>Market Making</b>	4311	<ul style="list-style-type: none"> <li>i. Dealing Members shall make market in FGN Bonds on request, following the "Secondary Market Making Rules" ("two-way quote Market") as established by the DMO and incorporated into FMDQ's Codified Rule Book for FGN Bonds.</li> <li>ii. Dealing Members shall make on demand, and in all conditions, continuous and effective two-way quote prices to all Dealing Members.</li> <li>iii. However, Dealing Members are not obligated to quote prices to customers for whom they have not completed due diligence.</li> <li>iv. Only Dealing Members and any other financial institutions while operating in the two-way quote market for FGN Bonds may trade through duly registered "Intermediaries" (Inter-Dealer Brokers).</li> <li>v. A Dealing Member shall maintain a minimum level of secondary market activity (excluding Repos) measured in terms of the total nominal value of securities traded and the total number of trades.</li> <li>vi. Each Dealing Member's activity shall equal at least 60% of its proportional share of these two parameters, over a rolling six month period.</li> <li>vii. A Dealing Member shall publish representative price quotes on its corporate website or other public place on a daily basis.</li> <li>viii. A Dealing Member is expected to sign-up and be connected to duly registered trading infrastructure and platforms that may be introduced from time to time for the buying and selling of securities.</li> </ul>	DMO	GRRS Sec. IIIb (2 - 12)
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Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<ul style="list-style-type: none"> <li data-bbox="846 277 1576 389">ix. A Dealing Member is encouraged but not under obligation to give two-way quote in FGN bonds that have been designated as rump or illiquid.</li> <li data-bbox="846 405 1576 667">x. A Dealing Member is allowed to vary his bid and/or ask for prices where the request is for a transaction outside the standard parameters (such as size and settlement date) specified in the Secondary Market Making Rules as established by the DMO and incorporated into the Codified Rule Book for FGN Bonds.</li> <li data-bbox="846 683 1576 1040">xi. Dealing Members shall comply with the following: <ul style="list-style-type: none"> <li data-bbox="891 730 1576 880">a. No commission or fee shall be received by or paid to a Dealing Member or customer(s) for activities in the secondary market except Inter-Dealer Brokers.</li> <li data-bbox="891 896 1576 1040">b. FGN Bonds shall be traded on the Over-the-Counter (OTC) Market. However, where the FGN Bonds are listed on the Nigerian Stock Exchange (NSE), transactions on the NSE are permitted.</li> </ul> </li> </ul>		

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4312	<p><b>Quoting Dealing Members shall:</b></p> <ul style="list-style-type: none"> <li>i. give two-way quote on FGN Bonds for standard amount, without undue delay, during trading hours.</li> <li>ii. refrain from quoting for amounts lower than the standard amount.</li> <li>iii. state the amount it is willing to quote for if the calling party requests a quote for an amount higher than the standard amount.</li> <li>iv. deal, for at least the standard amount, if calling party finds one of its quotes attractive.</li> <li>v. give two-way quote for all FGN bonds issued from July 2006 except “rump stocks”.</li> </ul>	FMDQ	
		4313	<p><b>Calling Dealing Members shall:</b></p> <ul style="list-style-type: none"> <li>i. decide promptly what to do on the quote supplied by the quoting party, during trading hours.</li> <li>ii. deal with a quoting Dealing Member as many times as it desires during trading hours.</li> <li>iii. close one deal (sell or buy) per quote, if it finds one of the quoting Dealing Members’ price attractive.</li> <li>iv. reserve the right not to deal if it finds the quotes unattractive.</li> <li>v. not be obliged to give quotes to quoting Dealing Members at that instance. However, if it shall oblige and quote, it must deal if quoting Dealing Members finds its quote attractive.</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
	<b>Manipulative or other Fraudulent Devices</b>	4321	<ul style="list-style-type: none"> <li data-bbox="846 276 1576 464">i. Customer Inducements - Dealing Members' personnel are forbidden from giving or receiving any form of compensation, monetary or otherwise, as inducement to bid at auctions or complete a trade for a customer.</li> <li data-bbox="846 483 1576 628">ii. Manipulation - Dealing Members shall not engage in activities, which are intended to manipulate market prices or obstruct the efficient functioning of the market.</li> <li data-bbox="846 647 1576 954">iii. Personal Trading - The Dealing Member's bond dealers are restricted from any personal trading or investment activity in FGN Bonds in the secondary market without prior notice being given to and approval received from the Dealer's Compliance Officer. Ownership interests in equities, bonds, mutual funds or other financial instruments shall be reported to the Dealer's Compliance Officer</li> <li data-bbox="846 973 1576 1158">iv. Collusive Activities - Dealers and treasury sales officers are strictly prohibited from activities with other Dealing Members, customers, and individuals within the FGN Bonds market resulting in transactions that do not reflect proper market practices.</li> </ul>	DMO	GRRS Sec. XI (1 & 2)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4322	i. All persons engaging in activities which jeopardise the efficiency of the marketplace shall be prosecuted against in accordance with the provisions of the Investments and Securities Act (ISA), 2007 (The Act), as may be amended from time to time, and other applicable laws.	SEC	ISA
	<b>False, Misleading or Deceptive Statements</b>	4331	<p>i. Dealing Members and their personnel are prohibited from making any statements or engaging in any activity, which could negatively impact the FGN bonds market.</p> <p>ii. Market Misrepresentation - Dealing Members' personnel shall not disseminate rumours or false information about the market, price levels or market participants.</p>	DMO	GRRS Sec. XI (1 & 2)
	<b>Operational Privileges</b>	4341	i. Dealing Members shall automatically, subject to signing the required agreements with an Inter-Dealer Broker (IDB), have access to the services of duly registered IDB firms which will enable them to unwind or acquire positions with each other and other institutions who are part of the two-way quote system	DMO	GRRS Sec. XII B (1)

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
Trading & Execution	Types of Transactions	4411	<b>Outright Purchase/Sale Transaction</b> The purchase (or sale) of FGN Bonds in exchange for cash on settlement dates.	FMDQ	
	Trading Hours	4421	Trading hours shall be as determined by FMDQ in consultation with the Dealing Members.	FMDQ	
	Trading Parameters	4431	<b>Quote Convention</b> i. Quotes given shall be on price basis.  <b>Standard Amount</b> i. ₦100m shall represent the standard amount Dealing Members must be ready to deal each time a quote is given on two-way quote basis ( <i>current practice is that standard amount for the trading of FGN Bonds with outstanding volume greater than ₦75bn is ₦100m</i> ). ii. ₦500m shall represent the standard amount Dealing Members must be ready to deal each time a quote is given on the RFQ to institutional investors (using the one-way quote window) and shall be in incremental sizes of ₦1mm. iii. Where amounts required are not specified up-front, quotes will be assumed to be for the standard amount and confirmed as such.	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<ul style="list-style-type: none"> <li>iv. There shall be no standard amount for the RFQ two-way quote, however, amount shall be in multiples of two-way quote standard amount.</li> <li>v. The standard amount may, however, be revised by FMDQ as the market evolves.</li> </ul>		
		4432	<p><b>Specified Amount</b></p> <ul style="list-style-type: none"> <li>i. Where the calling party requests for a quote for an amount larger than the standard amount, the calling party shall state the exact amount up-front.</li> <li>ii. The quoting party may decline to quote for such an amount and shall specify the amount it is willing to quote, for which must be the standard amount or higher.</li> </ul>	FMDQ	
		4433	<p><b>Rump stock &amp; short- dated bonds</b></p> <ul style="list-style-type: none"> <li>i. Dealing Members may quote indicative prices for FGN Bonds with amount less than N30bn in issue otherwise known as rump stock bond.</li> <li>ii. Dealing Members may quote indicative prices for FGN Bonds with less than one year term to maturity otherwise known as short-dated bonds.</li> </ul>	Market Practice	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4434	<p><b>Spread</b></p> <p>i. The maximum spread between the bid and offer rates for outright transactions will be as follows:</p> <p>c. Up to 3 years = 15bps (<i>current practice =15bps</i>)</p> <p>d. 3yr to 5yrs = 30bps (<i>current practice=30bps</i>)</p> <p>e. 5yrs to 7yrs = 30bps (<i>current practice=30bps</i>)</p> <p>f. 7yrs to 10yrs = 30bps (<i>current practice = 30bps</i>)</p> <p>g. 10yrs to 20yrs = 30bps (<i>current practice = 30bps</i>)</p> <p>Quotes shall be provided to market participants on prices with two decimal places. e.g. 99.50/99.80 (bid and offer respectively)</p>	FMDQ	
	<b>Best Execution</b>	4441	<p><b>Validity of Quotes</b></p> <p>i. Quotes shall be supplied via the RFQ trading module and telephone.</p> <p>ii. Quotes given via the telephone are only valid for that phone call.</p> <p>iii. Quotes given shall be valid for a minimum of 20 seconds for telephone and off-screen transactions on two-way-quote basis.</p> <p>iv. Under the RFQ trading module, a quoting Dealing Member must provide quotes when asked within 60 seconds.</p> <p>v. The recipients of the quotes should act on the quote within 15 seconds on the RFQ window.</p>	FMDQ	



Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<ul style="list-style-type: none"> <li>vi. The maximum number of dealers an institutional investor can request quotes from at every given time from on RFQ shall be five (5).</li> <li>vii. The institutional investor may accept a maximum of two (2) quotes obtained in RFQ.</li> <li>viii. Quotes on the anonymous firm order panel are valid until changed.</li> <li>ix. Quotes (amount and price) on the IDB module are valid until changed.</li> </ul>		
	<b>Trading Halt</b>	4451	<p>FMDQ may declare a trading halt in circumstances where trading activity:</p> <ul style="list-style-type: none"> <li>i. is being or could be undertaken by persons possessing unpublished price-sensitive information that relates to that bond;</li> <li>ii. is being influenced by a manipulative or deceptive trading practice;</li> <li>iii. may otherwise give rise to an artificial price for that bond; or</li> <li>iv. where the bond market becomes illiquid due to some external event.</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
	<b>Other Trading Practices</b>	4461	<b>Mode of Communication</b> Dealing shall be done on the telephone or through any on-line screen-based dealing system approved by FMDQ	FMDQ	
		4462	<b>Concluding a Deal -</b> <ul style="list-style-type: none"> <li>i. Dealing in the two-way quote system will be on the basis of Clean Price.</li> <li>ii. Dealers shall regard themselves as bound to a deal once the price and volume have been agreed.</li> <li>iii. A deal is consummated when the requesting Dealing Member confirms buying or selling the standard amount or any other amount quoted for at the bid or offer price indicated by the quoting party.</li> <li>iv. After quoting a price, a quoting Dealing Member cannot refuse to deal if the requesting Dealing Member decides to buy or sell at either of the prices quoted.</li> <li>v. To reduce the incidence of disputes, dealers are advised to reconfirm transaction details.</li> <li>vi. If no amount is stated before the quote is given, then the quote shall be assumed as given for the standard amount.</li> <li>vii. If a Dealing Member requests quote for an amount higher than the standard amount and this amount is stated ahead of the quoting party giving the quote, it shall be assumed that the quote was given for the</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			amount stated and the quoting party is obliged to deal.		
		4463	<p><b>Voice Recording Facility</b></p> <p>i. To expedite dispute resolution, the use of voice recording facilities in the trading offices of all parties is compulsory.</p> <p>ii. It is mandatory that all conversations shall be recorded.</p> <p>iii. Tapes should be kept for the period as contained in FMDQ General Market Rules after the settlement dates of the transactions.</p> <p>iv. Tapes containing transactions over which there is a dispute shall be retained until the issue has been resolved.</p>	FMDQ	
	<b>Performance Evaluation</b>	4471	<p>i. FMDQ shall review the activities of the Dealing Members periodically to determine if individual Dealing Members are fulfilling their secondary market obligations.</p>	DMO	GRRS Sec. IIIC

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4472	<ul style="list-style-type: none"> <li>i. The performance evaluation shall be the primary basis for the recognition of excellence or sanctions as detailed in the FMDQ E-Bond Trading Infractions and Penalties Guide, General Market Rules and any amendments to the provisions of the aforementioned regulatory frameworks.</li> <li>ii. Termination of Dealing Member Licence: A Dealing Membership licence may be terminated as stipulated in the Dealing Membership Agreement executed between the Dealing Member and FMDQ.</li> <li>iii. The reinstatement of the licence is solely at the discretion of FMDQ.</li> </ul>	FMDQ	
	<b>Trade Confirmation</b>	4521	<ul style="list-style-type: none"> <li>i. Verbal agreements shall be binding.</li> <li>ii. Subsequent written confirmation or SWIFT confirmation is regarded as evidence of the deal, but should not override terms agreed verbally.</li> <li>iii. Confirmations (whether mailed, telexed or sent by other electronic means) provide an opportunity for dealing errors to be identified and rectified with minimum delay and possible cost. Standard confirmation letters shall be exchanged within 24 hours.</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			<p>iv. Upon receipt, all confirmations shall immediately be thoroughly checked and appropriate action taken to rectify any differences.</p> <p>v. If the confirmation is considered incorrect, the Dealing Members shall be informed immediately and an amended confirmation shall be provided by the Dealing Member whose original confirmation was incorrect.</p> <p>vi. Any Dealing Member that fails to receive a confirmation shall query the matter with the counterparty as soon as possible.</p> <p>vii. CBN shall check that the FGN bonds to be sold are in the bond account of the seller.</p> <p><b><i>(Current practice is that trade confirmation is done via telephone or electronic platform on trade day. Dealing Members upload trade details unto the CBN Scripless Securities Settlement System (S4)).</i></b></p>		
	<b>Trade Execution</b>	4531	Dealing Members shall execute trades on FMDQ-advised Trading Systems e.g. FMDQ Bloomberg e-Bond system.	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
<b>Dispute Resolution</b>	<b>Mediation</b>	4611	<p><b>Initiation</b></p> <ul style="list-style-type: none"> <li>i. A Dealing Member shall file a request to mediate to FMDQ in the format set out in appendix 2</li> <li>ii. FMDQ shall contact the other Dealing Member to confirm if they agree to mediate the dispute.</li> </ul>	FMDQ	
		4612	<p><b>Selection</b></p> <ul style="list-style-type: none"> <li>i. FMDQ shall assist in the selection of a mediator (a financial markets expert) by providing the Dealing Members a list of mediators from which to choose along with a detailed report on mediator's background (disclosure report) for each mediator.</li> <li>ii. The Dealing Members in dispute shall select a mediator that they agree to work with.</li> </ul>	FMDQ	
		4613	<p><b>Sessions</b></p> <ul style="list-style-type: none"> <li>i. The Dealing Members, their legal representatives and the mediator shall sign FMDQ's Mediation Agreement (MA) before the mediation can take place.</li> <li>ii. FMDQ shall schedule and communicate the mediation date and location.</li> <li>iii. The Dealing Members shall discuss all the issues with the mediator's guidance.</li> </ul>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
		4614	<p><b>Settlement of Dispute</b> If the Dealing Members agree to settle, FMDQ shall draft an enforceable agreement for both Dealing Members to sign.</p>	FMDQ	
		4615	<p><b>Impasse</b> If the Dealing Members do not reach a settlement, an arbitration case can be filed.</p>	FMDQ	
		4616	<p><b>Fees</b> Dealing Members shall be required to pay administrative fees for mediating through FMDQ and are responsible for the mediator's fee and attendant expenses.</p>	FMDQ	
	<b>Arbitration</b>	4621	<p>Where the Dealing Members do not reach a settlement, the matter may be referred for arbitration in accordance with the Arbitration and Conciliation Act LFN, 2004.</p> <p>Where a settlement cannot be reached, the aggrieved member may refer the case to the Ethics Sub-Committee of the Bankers' Committee or SEC's Administrative Proceedings Committee.</p>	FMDQ	

Rule Section	Rule Sub-Section	Rule Code	Rule	Reference	Detail
			The Dealing Member may also appeal in accordance with the Investments and Securities Act (ISA) 2007 in the event of dissatisfaction with the decision of the arbitration.		



## Definition of Terms

**Arbitration** - refers to a formal dispute resolution process in which disputing parties allow an arbitrator, to listen to the arguments set forth by the parties, study the testimonial and/or documentary evidence, and render a decision on the matter.

**Bond** - A certificate of debt, generally long-term, under the terms of which an issuer contracts to pay the holder a fixed principal amount on a stated future date (the maturity date) and usually a series of interest payments during its life.

**Clean Price** – refers to the price of the bond excluding the accrued interest. Bond prices are normally quoted clean prices.

**Dealing Member** –refers to a Member of FMDQ that is licenced to make market in securities on any of the FMDQ-advised trading system.

**Federal Government of Nigeria (FGN) Bonds** – refers to bonds whose principal and/or interest is guaranteed by the Federal Government of Nigeria.

**Inter-Dealer Broker (IDB)** – refers to brokerage firm licenced to act as an intermediary between Dealing Members in securities and matches 'best' bids with the 'best' offers to arrive at the right price.

**KYC Documentation** – refers to the documentation required to be produced by a trading counterparty to ensure that "Know Your Client" or "Know Your Customer" (KYC) or Anti-Money Laundering (AML) requirements are adequately fulfilled.

**Market Maker** - refers to a dealer, who is prepared to create a two-way market by quoting simultaneous bid and offer prices on a regular and continuous basis.

**Mediation** – refers to a process in which a mediator facilitates negotiations between disputing parties, helping them to find a mutually acceptable resolution.

**Primary Market** – refers to the market in which new securities are issued by Governments, corporations, etc., in order to raise capital.

**Rump Stock** - Federal Government of Nigerian bonds that are not trading because their volume is not up to the standard volume to qualify for trading on two-way quote.

**Secondary Market** - This is a market for trading previously issued instruments such as stocks, bonds, options and futures.

**Short-dated Bond** - refers to any FGN bond whose Term-to-Maturity is 12 calendar months or less.

**SWIFT** - means a standardised communications platform used to facilitate the transmission of data about financial transactions. Such information includes (but is not limited to) confirmation of trades.

**Trading System** - means an electronic trading programme that allows Members to submit trade-related data and fulfil contractual obligations leading up to the clearing and settlement of executed trades. Systems used on the FMDQ Platform include (but are not limited to) Bloomberg, Thomson Reuters, ICAP, Parthian Partners. Trading systems may be different from the clearing and settlement systems.

**Two-Way Quote** - This is a binding market practice whereby a dealer simultaneously provides both the bid and ask quote of a security.

### **Key Definitions**

<b>Acronym</b>	<b>Description</b>
<b>AFS</b>	Available-For-Sale
<b>BPS</b>	Basis Points – is equivalent to a 1/100 <sup>th</sup> of a percentage
<b>CBN</b>	The Central Bank of Nigeria
<b>DMO</b>	Debt Management Office
<b>FGN</b>	Federal Government of Nigeria
<b>FMDQ</b>	FMDQ OTC PLC
<b>HTM</b>	Held-To-Maturity
<b>IDB</b>	Inter-Dealer Broker
<b>ISA</b>	Investments and Securities Act
<b>IPHC</b>	Initial Pre-Hearing Conference
<b>MTM</b>	Mark-To-Market
<b>MA</b>	Mediation Agreement
<b>RFQ</b>	Request for Quote
<b>SEC</b>	Securities and Exchange Commission

## **References**

S/N	Acronym	Description
1	FGMR	<ul style="list-style-type: none"><li>• FMDQ General Market Rules on Trading Practices as prescribed by FMDQ OTC PLC</li></ul>
2	GOBN	<ul style="list-style-type: none"><li>• A Guide To Operations For The Debt Management Office, Nigeria In The Federal Government of Nigeria Bond Market – 2012</li></ul>
3	GRRS	<ul style="list-style-type: none"><li>• General Rules and Regulations Governing the Primary Dealer Market Maker (PDMM) System In Federal Government of Nigeria (FGN) Securities by the Debt Management Office (DM) Nigeria – December 2012</li></ul>
4	SRR	<ul style="list-style-type: none"><li>• Securities and Exchange Commission Rules &amp; Regulations - 2013</li></ul>

**Appendices**

**Appendix One - FMDQ Dispute Form**

TO: MD/CEO  
FMDQ OTC PLC

Subject to the terms and conditions in our acceptance of and commitment to the Dealing Membership Agreement & Codified Rules on FGN Bonds, we hereby notify the FMDQ of a dispute arising from a bond transaction between us and ABC and seek prompt resolution.

The details of the disputed transaction are as follows:

<b>Buyer's Dealer:</b>	
<b>Seller's Dealer:</b>	
<b>Amount:</b>	
<b>Price:</b>	
<b>Yield:</b>	
<b>Transaction Date:</b>	
<b>Value Date:</b>	
<b>Coupon:</b>	
<b>Maturity Date:</b>	
<b>Bond Name:</b>	
<b>Amount due to us:</b>	
<b>Mode of Receipt:</b>	
<b>Amount Due to Counterparty:</b>	

**Mode of Payment:**

Nature of the dispute:

.....  
.....

Required compensation:

.....

Justification for compensation:

.....

Steps already taken in resolution of the dispute:

.....

Find attached copies of the following (please tick where applicable):

- 1. Confirmation letter
- 2. Evidence of occurrence of the dispute
- 3. Justification for claims
- 4. Evidence of steps taken to resolve the dispute
- 5. Others (specify)

Kindly advise us as we look forward to prompt resolution of the dispute.

\_\_\_\_\_  
**Authorised Signatory**

\_\_\_\_\_  
**Authorised Signatory**

**Appendix Two – Sample of Confirmation Letter for Sale of FGN Bonds**

June 26, 2013

XXX Bank PLC  
Kotun Street  
Victoria Island  
Lagos

**RE: SALE OF FGN BONDS**

We write to confirm the sale of FGN Bonds to XXX Bank PLC.

The details of the FGN Bonds are:

<b>Security</b>	
<b>Maturity Date:</b>	
<b>Seller:</b>	
<b>Buyer:</b>	

<b>Trade Date:</b>	
<b>Coupon:</b>	
<b>Settlement Date:</b>	
<b>Yield :</b>	
<b>Clean Price:</b>	
<b>Accrued Interest:</b>	
<b>Dirty Price:</b>	
<b>Amount Payable:</b>	

Please note that the responsibilities and obligations of the parties herein are subject to applicable laws and regulations in Nigeria.

Kindly indicate against two authorized signatures your acceptance of this offer.

Thank you for your anticipated cooperation.

Yours faithfully,

**For: AAA BANK LIMITED**

\_\_\_\_\_  
**Authorised Signatory**

**For: XXX BANK PLC**

\_\_\_\_\_  
**Authorised Signatory**

\_\_\_\_\_  
**Authorised Signatory**

\_\_\_\_\_  
**Authorised Signatory**



**Appendix Three – Sample of Confirmation Letter for Purchase of FGN Bonds**

June 26, 2013

AAA Bank Limited  
Karimu Street  
Victoria Island  
Lagos

**RE: PURCHASE OF FGN BONDS**

We write to confirm the purchase of FGN Bonds from AAA Bank Ltd.

The details of the FGN Bonds are:

<b>Security</b>	
<b>Maturity Date:</b>	
<b>Seller:</b>	
<b>Buyer:</b>	
<b>Trade Date:</b>	
<b>Coupon:</b>	

<b>Settlement Date:</b>	
<b>Yield :</b>	
<b>Clean Price:</b>	
<b>Accrued Interest:</b>	
<b>Dirty Price:</b>	
<b>Amount Payable:</b>	

Please note that the responsibilities and obligations of the parties herein are subject to applicable laws and regulations in Nigeria.

Kindly indicate against two authorized signatures your acceptance of this offer.

Thank you for your anticipated cooperation.

Yours faithfully,

**For: XXX Bank PLC**

\_\_\_\_\_  
**Authorised Signatory**

**For: AAA Bank Limited**

\_\_\_\_\_  
**Authorised Signatory**

\_\_\_\_\_  
**Authorised Signatory**

\_\_\_\_\_  
**Authorised Signatory**

**Appendix Four – Holdings of FGN Bonds by Foreign Investors**

Name	Country of Origin	Face Value (₦)