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## REPO MARKET FRAMEWORK

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## DEFINITIONS

The following terms and expressions shall, unless the context otherwise requires, have the following meanings in this Repo Market Framework:

<b>“Business Day”</b>	means a day ( <i>other than a Saturday, Sunday or Federal Government of Nigeria declared public holiday</i> ) on which banks are open for general business in Nigeria;
<b>“CBN”</b>	means Central Bank of Nigeria;
<b>“CBN S4”</b>	means Central Bank of Nigeria Scripless Securities Settlement System, being the central securities depository system for the settlement of Federal Government of Nigeria and CBN fixed income securities transactions;
<b>“Classic Repo”</b>	means a Repo Transaction in which the borrower temporarily transfers securities to a lender as collateral for a cash loan with an agreement to return the cash at a predetermined rate and future date;
<b>“Collateral”</b>	means the securities exchanged in a Repo Transaction;
<b>“Collateral Top-Up”</b>	means the value of Collateral required to meet the Maximum Exposure Value agreed at the Repo Transaction date;
<b>“FMDQ Exchange” or the “Exchange”</b>	means FMDQ Securities Exchange Limited;
<b>“FMDQ Clear”</b>	means FMDQ Clear Limited;
<b>“FMDQ Depository” or the “Depository”</b>	means FMDQ Depository Limited;
<b>“Haircut”</b>	means an agreed percentage discount applied to the market value of the Collateral to fix the purchase price at the start of a Repo. A Haircut is expressed as the percentage difference between market value and purchase price;
<b>“Institutional Investors”</b>	means Pension Fund Administrators, Asset/Fund Managers, Investors and such other institutions as may be advised by the Exchange from time to time, eligible to participate in the Repo market by trading only with FMDQ Exchange Dealing Members and not amongst themselves;
<b>“Collateral Top-Up Call”</b>	means a notification demanding a Transaction Counterparty to transfer additional securities to meet the minimum required value to cover the exposure;
<b>“Maximum Exposure Value”</b>	means the permissible change in the market value of Collateral determined before a Collateral Top-Up will be required;
<b>“Q-ex” or the “System”</b>	means the FMDQ Exchange Proprietary Market System capable of multi-asset class trading, clearing, collateral management and surveillance or any other system so advised by the Exchange from time to time;
<b>“Repo Buyer”</b>	means the party that pays cash and receives Collateral at the inception of a Repo;
<b>“Repo Seller”</b>	means the party that receives cash and transfers Collateral at the inception of the Repo;
<b>“Repo Market” or the “Market”</b>	means the subset of the FMDQ Exchange markets established for the purpose of trading Repos;
<b>“Report Only”</b>	means a trading module on Q-ex where Transaction Counterparties can report off-exchange Repo Transactions;

<b>“Repurchase Agreement” or “Repo” or “Repo Transaction”</b>	means the generic term for Classic Repos and Sell/Buy-Backs which involves a loan/sale of securities with a simultaneous agreement to return/repurchase the securities at a specified price on a predetermined future date;
<b>“RTGS”</b>	means Real Time Gross Settlement;
<b>“Sell/Buy-Back”</b>	means a temporary cash loan to a Repo Seller through the short-term sale of securities by a Repo Seller against a transfer of cash by a Repo Buyer, with a simultaneous agreement for the Repo Seller to repurchase the same or similar securities at a future predetermined date and price;
<b>“Substitution”</b>	means the act of replacing the initial Collateral posted for a Repo Transaction with new Collateral in order to keep the Repo Transaction itself intact;
<b>“Transaction Counterparties” or “Counterparties”</b>	means FMDQ Exchange Dealing Members, Institutional Investors and such other eligible entities executing a Repo Transaction;

#### ABBREVIATIONS

<b>AFO</b>	Anonymous Firm Order	<b>FGN</b>	Federal Government of Nigeria
<b>CBN</b>	Central Bank of Nigeria	<b>OMO</b>	Open Market Operations
<b>DQL</b>	Daily Quotations List	<b>RFQ</b>	Request-for-Quote
<b>DvF</b>	Delivery versus Free	<b>T+0</b>	Transaction Date
<b>DvP</b>	Delivery versus Payment	<b>1WQ</b>	One-Way Quote

## 1. INTRODUCTION

This Repo Market Framework (the “**Framework**”) details best practices for Repo Agreements in the Nigerian financial market and shall be read in conjunction with all relevant FMDQ Exchange Rules, Trading Standards, Market Bulletins, Market Notices, membership/market agreements, and such other regulation as may be prescribed by FMDQ Exchange from time to time. The Framework shall guide on the following:

- Market Structure
- Operational Structure
- Trading Standards
- Events of Default

## 2. MARKET STRUCTURE

The Repo Market structure outlined below is defined for trading bilateral Repos with centralised clearing, collateral management and settlement. It may be subject to periodic review in line with best practices.

### 2.1 Legal Basis

All Transactions Counterparties shall be subject to a legally binding agreement as prescribed by FMDQ Exchange from time to time. Such Agreements shall include the Nigerian Master Repurchase Agreement (“**NMRA**”) or the Global Master Repo Agreement (“**GMRA**”) or such other agreement as may be advised by the Exchange from time to time in line with global best practices.

### 2.2 Product Coverage

The products covered in this Framework include the following:

- Classic Repos
- Sell/Buy-Backs

### 2.3. Market Participants

Key Participants in the Repo Market shall include:

S/N	Participant(s)	Description
1.	FMDQ Exchange	FMDQ Exchange is the Securities Exchange on which Repo Transactions are executed. It ensures the efficiency of the Repo Market through its discharge of the following responsibilities: <ul style="list-style-type: none"> <li>▪ Organising the Market: by establishing the Framework and Operational Standards which will govern the Repo Market</li> <li>▪ Establishing a robust Market structure: by defining product and Collateral Types for the Repo Market</li> <li>▪ Promoting price discovery: by establishing a trading platform and pricing source</li> </ul>
2.	FMDQ Clear	FMDQ Clear is the clearing and collateral manager. It facilitates the daily valuation of Collateral to determine any net exposures that may arise in Repos Transactions between Counterparties.  FMDQ Clear is also responsible for the administration of Collateral Top-Up obligations on transferred Collateral in a timely and orderly manner.
3.	FMDQ Depository	FMDQ Depository is the designated settlement entity for the Repo Market. It facilitates the transmission of settlement instructions of Repo Transactions to the CBN S4.
4.	Transactions Counterparties	End-users of the Repo Transactions.

## **2.4. Market System**

All transactions in the Repo Market shall be executed and reported on the System or any other designated trading system as advised by FMDQ Exchange. The System has been optimised for trading, reporting, clearing, collateral management, settlement and surveillance in the Repo Market.

## **3. OPERATIONAL STRUCTURE**

### **3.1 Trading**

- (i) Repos shall be traded via the RFQ and Report Only modules on the System.
- (ii) RFQs shall not be anonymous but display the details of the initiating and quoting Transaction Counterparties.
- (iii) Transaction Counterparties shall trade on a non-mandatory 1WQ basis.
- (iv) Collateral shall be stated at the point of execution of the trade.
- (v) Classic Repos and Sell/Buy-Backs shall be quoted on a per annum interest rate basis.
- (vi) Interest amount on Classic Repos shall be calculated according to the relevant day count convention, i.e., actual/actual, while interest (including accrued interest on Collateral) on Sell/Buy-Back shall be incorporated in the forward price of the far leg of the Repo Transaction.
- (vii) Repo Transactions traded or reported on the System shall constitute valid and binding obligations of the Counterparties.

### **3.2 Types of Collateral**

- (i) The types of Collateral acceptable for Repo Transactions quoted as Collateral are listed below and may be defined by FMDQ Exchange from time to time.
  - FGN Bonds
  - Nigerian Treasury Bills
  - CBN OMO Bills
  - CBN Special Bills
  - And such other securities as may be prescribed by FMDQ Exchange from time to time
- (ii) Applicable Collateral value for a security shall be derived from the Yield-to-Maturity (“YTM”) of the asset as published on the FMDQ DQL, however, Transaction Counterparties may mutually agree the pricing base.
- (iii) Collateral values shall be grossed up to the nearest thousand to avoid excessive fragmentation of securities.
- (iv) Haircuts on Collaterals shall be determined as a function of the liquidity, volatility and credit risk of the securities and mutually agreed between the Transaction Counterparties in advance of trading and recorded in the trade confirmation.
- (v) The number of allowable Substitutions shall be unlimited during the life of a Repo Transaction. Whenever a Repo Seller requests for Substitution, the prerogative resides with the Repo Buyer to agree to the Substitution request.

### **3.3 Collateral Management**

- (i) FMDQ Clear shall value all Collateral twice daily, calculate all Collateral Top-Ups (subject to the Maximum Exposure Value agreed with market participants) and shall send the Collateral Top-Up reports to the Transaction Counterparties including details of the aggregate portfolio positions.
- (ii) Collateral Top-Up of Repos shall be by transfers of securities only.

- (iii) FMDQ Clear shall advise the Maximum Exposure Value to be adopted in the Repo Market from time to time.
- (iv) Transaction Counterparties shall be required to make provisions for the Collateral Top-Ups by 10:00 AM the following Business Day.
- (v) Repo Transactions shall be marked-to-market daily or any other time as may be determined by the Exchange. FMDQ Clear, may consider the need to do so within the day if there has been major or material market movement. Valuations shall include interest accrued on securities outstanding; as well as any coupon which becomes payable to the holder of Collateral during the life of the Repo.

### **3.4 Collateral Substitution Process**

- (i) Collateral Substitution will be allowed only where it has been agreed between the Repo Buyer and the Repo Seller.
- (ii) Collateral securities shall not be sold without first assigning another suitable asset in its place. The process must be in place with the required controls to effect the assignment.
- (iii) Collateral Substitution will only be permitted by the Repo Buyer where the Collateral to be substituted is of equal or greater value than the initial Collateral.
- (iv) In a Substitution operation, the Repo Seller shall input instructions onto Q-ex to recall the Collateral originally instructed and to replace it with another Collateral.
- (v) The Repo Buyer shall receive two (2) messages on Q-ex, one (1) to receive the initial Collateral and one (1) to deliver the substitute Collateral.
- (vi) The two (2) messages will be identified as part of a Substitution transaction using a unique transaction code and will be linked to the original instruction using the Repo reference and/or a linkage sequence with the message reference of the original Repo Transaction.

### **3.5 Settlement of Repo Transactions**

Settlement of the near and far legs of a Repo Transaction shall be by DvP while Collateral Top-Ups shall be by DvF.

### **3.6 Basis and Business Day Convention**

All Market participants shall apply the following Business Day convention:

- (i) All calculations for interest and accrued interest on Repo Transactions shall be made on an Actual/Actual basis.
- (ii) Where the maturity date of a Repo falls on a day that is not a Business Day, the maturity date shall be the next Business Day (i.e., rolled forward).
- (iii) Market participants are encouraged to enquire and specify as to the exact maturity (end) dates for Repo Transactions prior to execution.

## **4. EVENT OF DEFAULT (EOD)**

Events of Default shall be determined in accordance with the provisions of the Repo Market Operational Standards and such other documentation as may be prescribed by the Exchange from time to time.

## 5. REPO TRADING STANDARDS

<b>Quote Convention</b>	Rate basis
<b>Trading Style</b>	1WQ
<b>Trading System</b>	FMDQ Proprietary Market System (Q-ex) or any other designated trading system
<b>Trading Hours</b>	10:00 AM – 5:50 PM
<b>Maximum Exposure Rate</b>	5.00% <sup>1</sup>
<b>Daily Collateral Valuation</b>	1:30 PM and 6:30 PM
<b>Standard Trade Size</b>	Not Applicable
<b>Standard Spread</b>	Not Applicable
<b>Standard Tenors <sup>2</sup></b>	1, 7, 14, 30, 60, 90, 180, 270, 360 days
<b>Settlement Day</b>	<ul style="list-style-type: none"> <li>▪ Near leg - Negotiated</li> <li>▪ Far leg - Negotiated</li> </ul>
<b>Settlement Platform</b>	<ul style="list-style-type: none"> <li>▪ Cash – RTGS</li> <li>▪ Securities Settlement (FGN and CBN Securities) - CBN (S4)</li> </ul> <p>Securities Settlement (Non-FGN Securities) – FMDQ Depository</p>

<sup>1</sup> As determined by FMDQ Clear and agreed with market participants from time to time.

<sup>2</sup> Standard tenors shall apply only for the Repo Curve determination.