FMDQ OTC PLC

TRANSFORMING THE NIGERIAN DEBT CAPITAL MARKET

A Presentation to the Association of Issuing Houses of Nigeria

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Outline

Part 1	Overview
Part 2	Benchmarking the Nigerian Debt Capital Market
Part 3	FMDQ OTC PLC: An OTC Market Transformation Agent
Part 4	FMDQ Strategic Initiatives
Part 5	FMDQ Value Proposition

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Overview: BRIC's edge over MINT

"The current trend towards bank lending disintermediation suggests corporates will increasingly access debt capital markets, paving the way for lower issuance and funding costs, reduced stress on the banking system and increased investment opportunities for wholesale and retail investors. This trend will only continue if local markets enhance their liquidity and depth across the product spectrum, broadening investment appeal to a wider range of participants and ensuring a larger portion of [...] savings (both personal and institutional) remains within the region". *Should this be the path for Nigeria?*

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Source: ASIFMA Asia's Capital Markets: Strategies for Sustained Growth – Nov 2013

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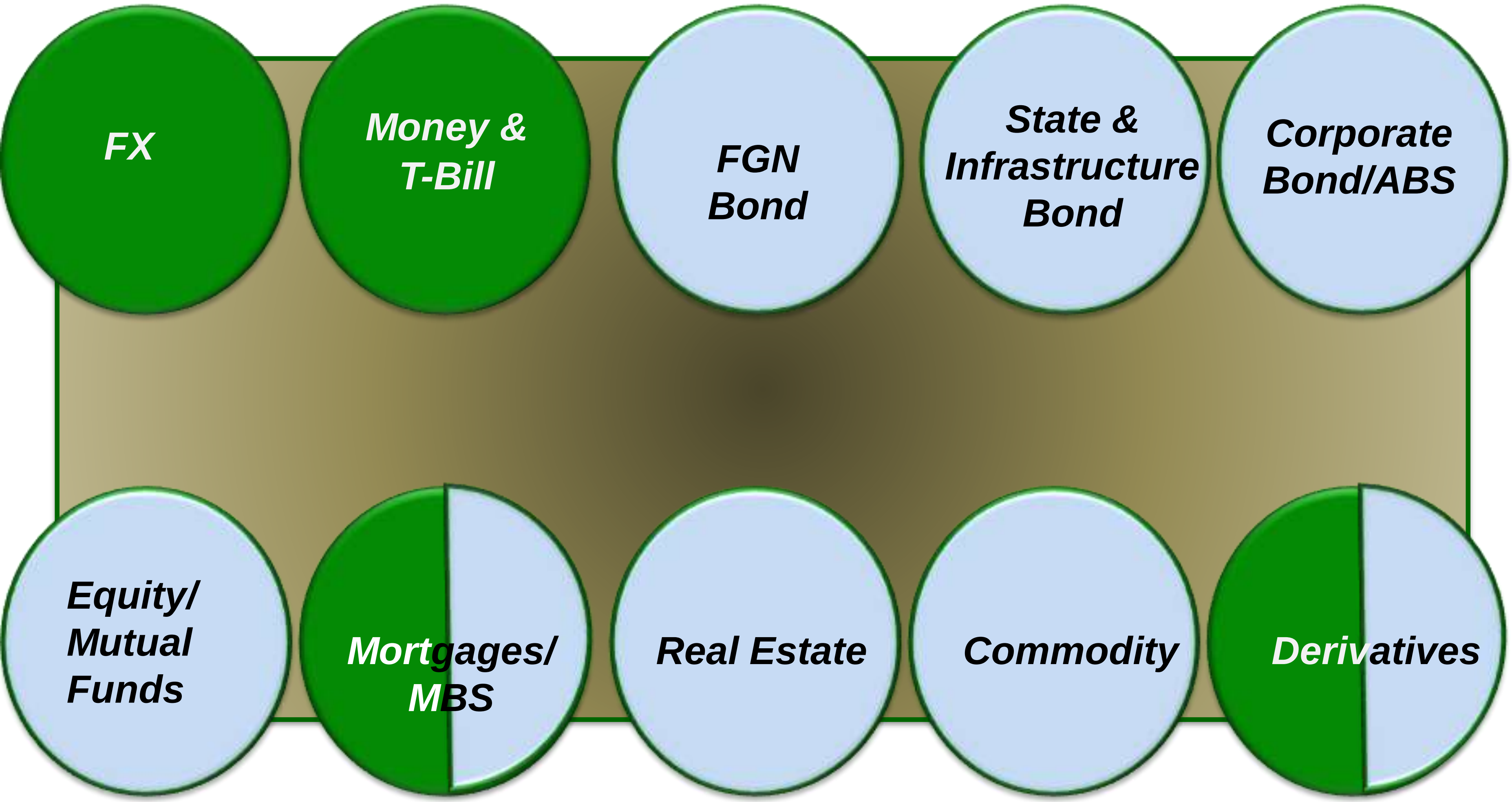
Overview../2: Galvanising the Economy

- One of the main challenges of developing countries such as Nigeria is channeling the available resources into areas that will serve economic development
- A virile financial market is the driver for enhancing the savings and investments culture required to facilitate economic development in a nation
- Generally, a strong financial market is recognised as a major driving force for a country's prosperity and development
- Therefore, the Nigerian financial markets should be channeled to power the nation’s economic development by facilitating the transfer of funds to the real sector i.e. mortgage, infrastructure, agriculture, power, etc.

Overview../3: Galvanising the Economy

The financial markets are not all regulated by the CBN. However, operations of banks in Nigeria are not restricted to products regulated by the CBN (e.g., bonds, commodity).



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ABS – Asset-Backed Securities
MBS – Mortgage-Backed Securities

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Overview../4: The Role of Debt in Galvanising the Economy

1. Supports conduct of indirect monetary policy operations
2. Benchmark for long-term private debt issues
3. Supports collateralised lending in inter-bank market thereby reducing the need for frequent central bank interventions
4. Attractive alternative to capital flight
5. Channels savings from the non-monetary sector into the formal financial system
6. Reduces size of the black economy and widens the tax base
7. Facilitates de-dollarisation & improved perceptions of currency and country risk

Source: IMF Working Paper WP/07/127

Outline

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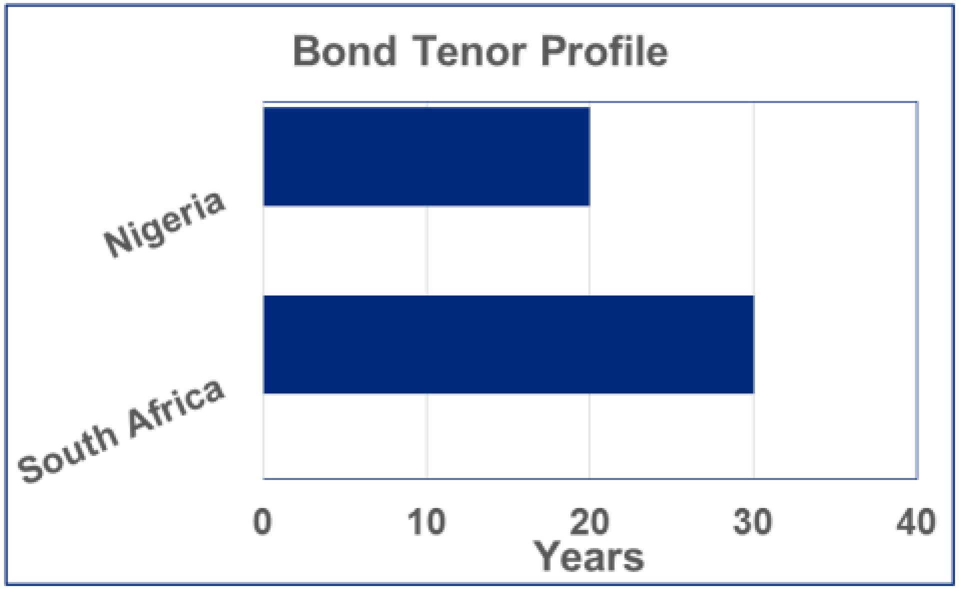
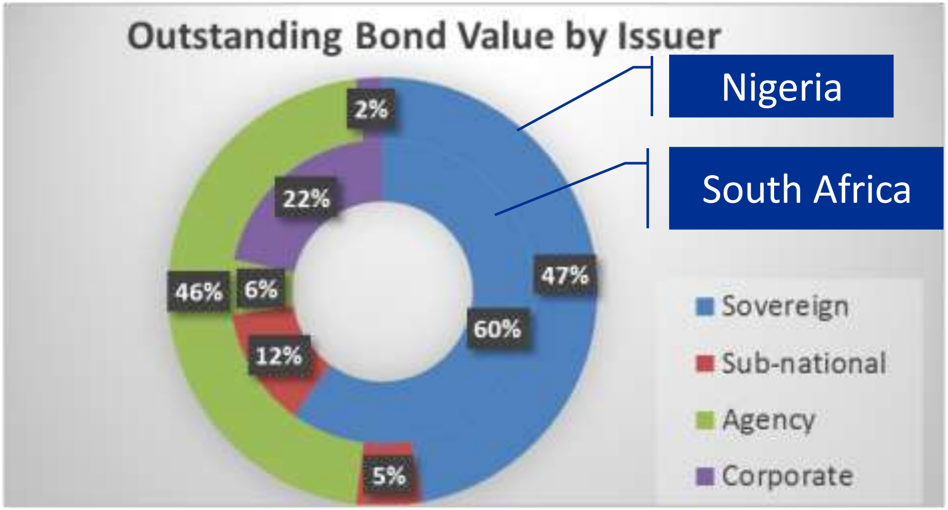
Benchmarking the Nigerian Debt Capital Market

Product Offering

South Africa (SA)	Nigeria (NIG)
Spot Bonds	Spot Bonds
Bond Indices	Bond Indices
Bond Futures	
Bond Options	
JIBAR futures	
Index futures	

	SA	NIG	
Total bonds listed	1,539	55	2013
Total new bonds listed	814	8	2013
Outstanding Value ($'bn)	147.50	24.07	Mar-13
Turnover ($'bn)	23,134.60	44.79	Mar-13
FPI flows ($'bn)	967.80	6.14	Nov-13





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Needed Reforms in the Debt Market

Enabling Environment

- Macro economic environment
- Legal & Regulatory
  - Issuance Process
  - Market Rules
- Policy and Tax Regime

Organised Market Place

- Efficient Trading, Clearing, Settlement & Depository Systems
- Pre-trade, trade and post trade transparency
- Market Credibility and Integrity

Capacity & Institutions

- Sponsors & Institutions
- Securitisation
- Informed Investors

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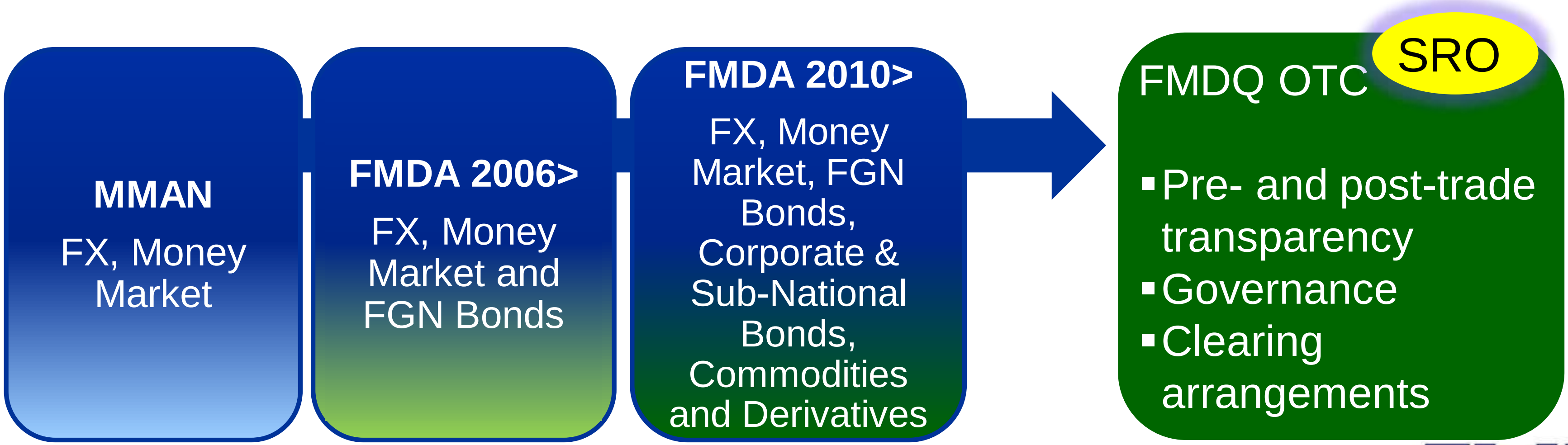
Evolution of FMDQ

- The Financial Markets Dealers Association (FMDA), formerly Money Market Association of Nigeria (MMAN) was established in 1976 and formally registered in 1989 as an association of the treasurers of licensed banks and discount houses in Nigeria
- Since 2005, corporate organisations as well as individuals have been granted membership following the adoption of the Association's new constitution
- The 24 banks and 5 discount houses resolved at the FMDA EGM between July 16-17, 2010 to operate all their current OTC activities under a SEC-licensed Self-Regulatory Organisation (SRO) and be governed by this authorised body
- The CBN showed its support for the initiative via a sizeable set-up contribution
- FMDQ OTC PLC was incorporated on January 6, 2011
- On the 6th of November 2012, the SEC registered FMDQ OTC PLC to perform the function of Over-The-Counter (OTC) market in the Nigerian Capital Market



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FMDQ OTC Governance

FMDQ will integrate the inter-bank and traditional capital markets to make our OTC market globally relevant

Ownership

- 25 banks and discount houses
- Central Bank of Nigeria
- Financial Markets Dealers Association (FMDA)
- The Nigerian Stock Exchange through NSE Consult Limited

Board

- 13-man board: Representatives of FMDA, Bankers' Committee, pension industry and independent director

Membership

- Trading Membership: 23 Banks and 3 Discount Houses
- Money Market Instruments Listing Membership
- Bond Listing Membership: Top SEC-registered Issuing Houses

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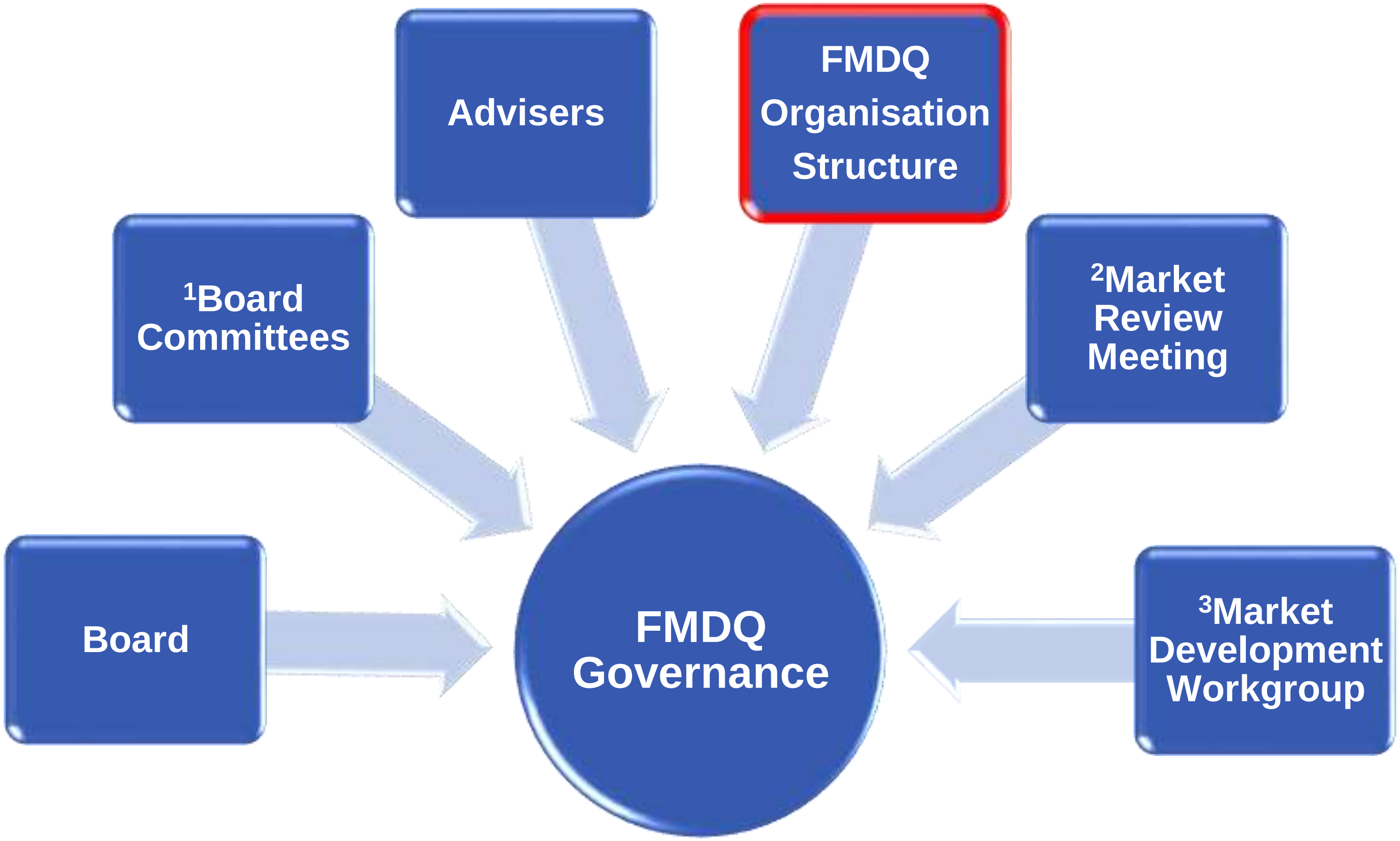
FMDQ OTC Governance../2

The key enablers in delivering FMDQ's mandate.



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[1] Board Governance & HR; Finance & General Purpose; Audit & Risk; Regulation & Supervision; Markets & Technology

[2] Meeting of FMDQ Board and regulators – semi-annual meetings

[3] Workshop of FMDQ Board Committee, Management and Market Associations – Quarterly meetings

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FMDQ Value Statements

Vision

- To be the most liquid, efficient, secure and technology-driven OTC market in Africa by 2018

Mission

- To empower the OTC financial markets to be innovative and credible, in support of the Nigerian economy

Values

- World-class standards
- Innovation
- Integrity
- Value-adding

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FMDQ OTC: Our Role

OTC Exchange	▪ Development of technology for the execution of trades, the aggregation and publication of trade and price information, creating improved transparency and liquidity across all product lines ▪ Straight-through processing (STP)
SRO	▪ Work with and reform the existing rules, regulations and market practices ▪ Technology-enhanced monitoring and enforcement of rules
Advocacy	▪ The link between the market operators and the regulators, driving reforms and market development on behalf of its membership and markets ▪ Collaborate with other agencies on market development initiatives

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FMDQ's Twin-Oversight Responsibilities

SEC licensed FMDQ OTC PLC (under Section E5 of SEC Rules and Regulations of 2013) to function as an OTC Market which makes FMDQ a securities exchange and a self-regulatory organisation.

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OTC market platform i.e. securities exchange for listing and trading of fixed income products and plain-vanilla interest rate, currency and derivatives to offer financial security

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Self-regulator of members' activities and conduct to ensure market liquidity and integrity

- **The existing inter-bank OTC fixed income and currency markets (i.e., Money, Repo, Open-Buy-Back, Commercial Paper, Treasury bills, FGN bond and FX) will be accorded stronger governance to improve market liquidity, credibility and integrity**
- **SEC has indicated the intention of relying on the CBN to regulate FMDQ around products and markets under CBN's direct oversight**

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FMDQ's Responsibilities: Positioning Nigeria

- Promotion of fixed income securities market (listing and trading) to a regional hub status
- Implementation of trading systems - the urgent ones being the fixed income and FX trading systems
- Development of credible benchmarks, indices and forewarning system of market risks
- Development of framework for real sector and SMEs collective borrowing from the capital market to access pension funds
- Promotion of system renovation, product innovation and preparation of standard documentation
- Collection, analysis and publication of relevant market information to serve members and other stakeholders
- Organisation of seminars, workshops and conferences to enhance sponsored individuals' skills and professional competence
- Formulation of market self-regulatory rules, business norms, professional ethics and supervision of the implementation
- Definition of certifications for sponsored individuals' roles (with FMDA/CIBN)
- Protection of the lawful rights and interests of members, passing issues, suggestions and requests to competent agencies and legislative bodies
- Support and promote advocacy in financial markets legislation and improve accounting treatment and taxation rules for secondary market
- Integration of the Nigerian market with international markets

FMDQ .. A Transformation Agent

1.	An organiser of OTC market development and infrastructure
2.	A promoter of OTC market-oriented reforms
3.	A developer of product innovation for financial security
4.	A regulator of OTC markets under delegated authority of CBN, SEC and DMO
5.	An architect and diplomat for the Nigerian OTC markets
6.	A coordinator of various interests in the OTC markets
7.	A linkage between the CBN and OTC market for systemic market risk management
8.	A summariser of practical experience in the OTC markets

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Building the Foremost Debt Capital & FX Platform

FMDQ will immediately focus on developing the cash markets before leading in the development of the market in plain-vanilla derivatives.

1

Fixed Income

(Listings & Trading)

- **Money market, repos, commercial papers, treasury bills, bonds, loan sales, eurodollar bonds**

2

FX

- **spot and forwards**

3

Derivatives – FX and interest rate

- **Future challenges and focus**
- **Standardisation and compliance with international standards**

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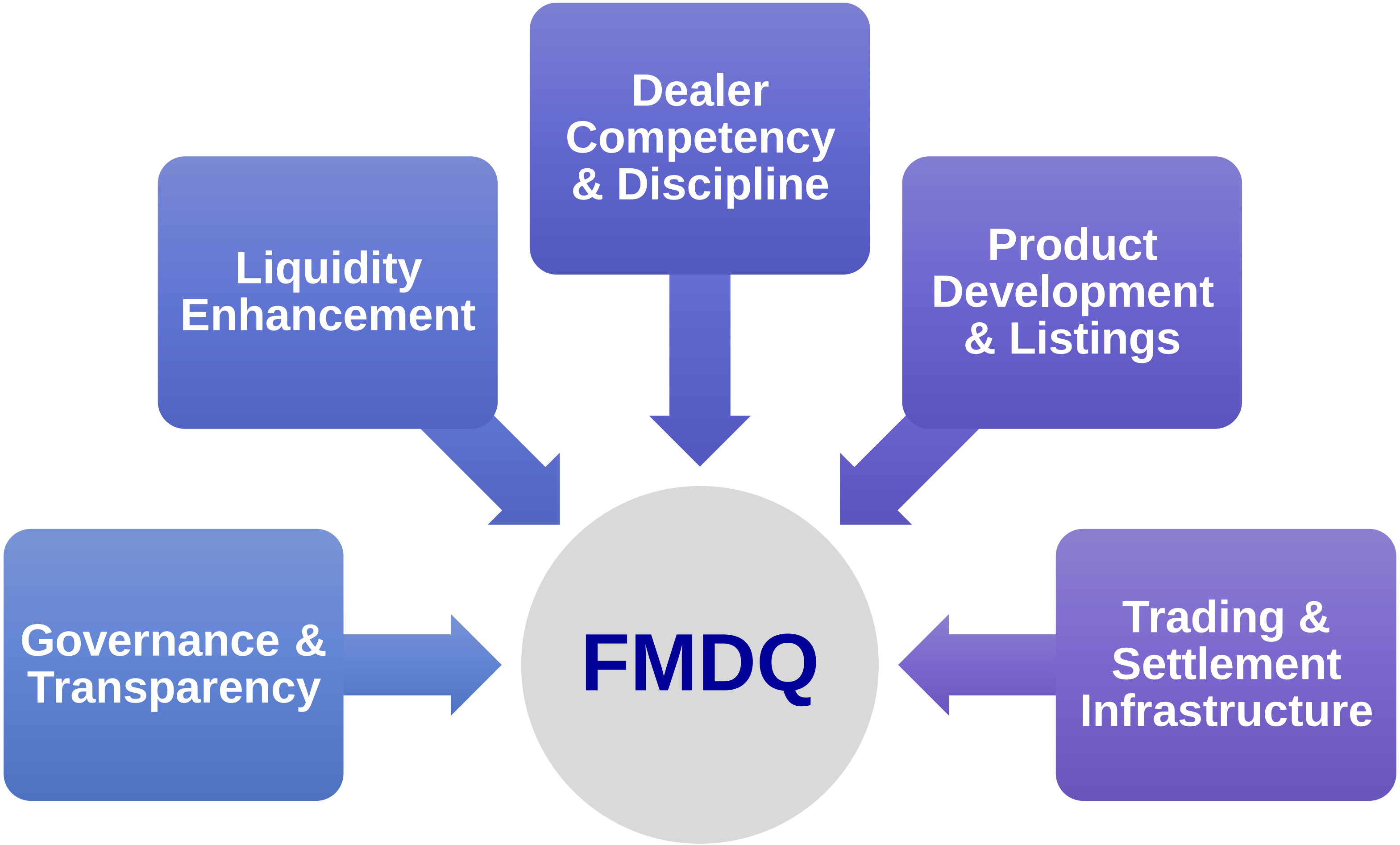
FMDQ Debt Capital Market Transformation Focus

- FMDQ will focus its development of the debt capital market in the following broad areas:



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FMDQ's Immediate Priorities

S/N	Subject Focus	Details
1.	Improved Market Transparency	▪ Implementation of Bloomberg E-Bond trading system for fixed income products ▪ Data Aggregation & Reporting of Financial Markets Activities
2.	Codified Rules and Enforcement	▪ Codification of Rules from SEC, CBN, DMO & FMDA ▪ Additional rules for trading governance
3.	Harmonisation of Standards	▪ Extension of best practice standards of trade documentation, execution and rules to other products (e.g., automation of counterparty limits)

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FMDQ Strategic Initiatives

S/N	Agenda	Strategic Initiative	Supporting Regulator
1.	Global Competitiveness	▪ Reliable fixed income benchmarks and indexes ▪ Credible yield curves and fixings ▪ Reliable official source of debt capital prices and yields ▪ Reliable price formation and transparency ▪ Collateral management for repo ▪ Reduction of counterparty risk impact ▪ Activate fixed income products e.g. Commercial Paper ▪ High market credibility and integrity ▪ Plain-vanilla hedging products ▪ Debt financing structure for SME/Agriculture ▪ Debt financing structure for Housing/Infrastructure	CBN/SEC/ PenCom/ DMO/NAICOM

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FMDQ Strategic Initiatives

S/N	Agenda	Strategic Initiative	Supporting Regulator
2.	Operational Excellence	▪ Reliable trading and settlement infrastructure ▪ Straight-through-processing ▪ Protection of Clients' assets ▪ Continuous Linked Settlement for FX	CBN
3.	Liquidity	▪ Active CBN support in developing the markets ▪ Bond Specialists Market for non-FGN bonds	CBN/SEC
4.	Diversity	▪ Varied fixed income and derivative securities	CBN/SEC/ PenCom/ NAICOM

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FMDQ Value Proposition

FMDQ system renovation & product innovation activities are geared towards maximising stakeholder value

- Credible and consistent source of financial market prices and model prices for price formation and valuation – FMDQ Daily Quotations List
- Introduction of an FMDQ FGN Bond Index

- Listings of CPs and other debt program products

Price Formation & Transparency

Liquidity Enhancement

Product Innovation

Market Development

- Introduction of the Bloomberg E-bond platform
- Bond Specialist Market for non-sovereign bonds
- Activation of Repo and Securities Lending Frameworks

- NIBOR Restructuring Program
- Straight-Through-Processing system for fixed income products
- Capacity Building
- Governance

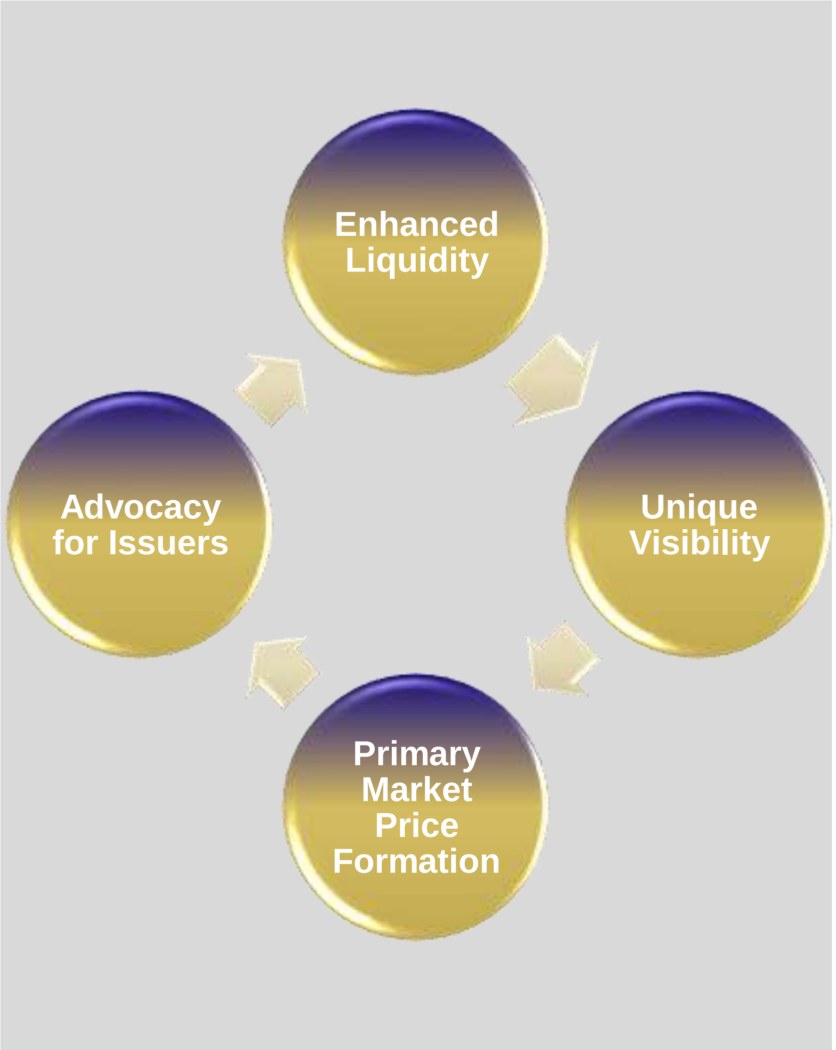
Value Proposition – Listings

Enhanced Liquidity: FMDQ OTC currently has 26 financial institutions registered to trade on its platform. FMDQ will organise its members to offer liquidity to non-sovereign bonds through a Bond Specialist Market. Having these bonds trade on the FMDQ platform will boost liquidity and ensure subsequent listings will have yield reference. Listing on FMDQ improves access to investors as FMDQ trading network is international.

Unique Visibility: FMDQ members have the history of efficiently and effectively initiating and settling transactions. Thus, the prestige of having the bond trade on an established debt capital focused securities exchange, will afford the visibility to attract both local and international investors.

Primary Market Price Formation: The FMDQ DQL will reduce investors' complaints on valuations.

Advocacy for Issuers: FMDQ will constantly engage stakeholders through its advocacy initiatives to seek ways of minimising constraints identified whilst working towards establishing a smoother marketplace experience.



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FMDQ-AIHN Partnership Matrix

S/N	Initiative	FMDQ	AIHN
1.	FMDQ Daily Quotations List	▪ Development and presentation of methodology to AIHN	▪ Validation of the methodology
2.	FMDQ FGN Bond Index	▪ Development ▪ Sensitisation ▪ Stability	▪ Product Innovation
3.	Listing of Bonds and other fixed income securities	▪ Registration of Issuing Houses ▪ Listing Rules & Process ▪ Reliable money market benchmarks ▪ Development of interest rate swap market ▪ Market sensitisation	▪ Business development ▪ Market sensitisation
4.	Listing and trading of Commercial Papers and Loan Sale etc.	▪ Listings Process	▪ Issuing Agency ▪ Partnership requests
5.	Debt Capital Market Development	▪ Workshops ▪ Conferences ▪ Advocacy	▪ Advocacy ▪ Workshops ▪ Conferences

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Thank you for your attention

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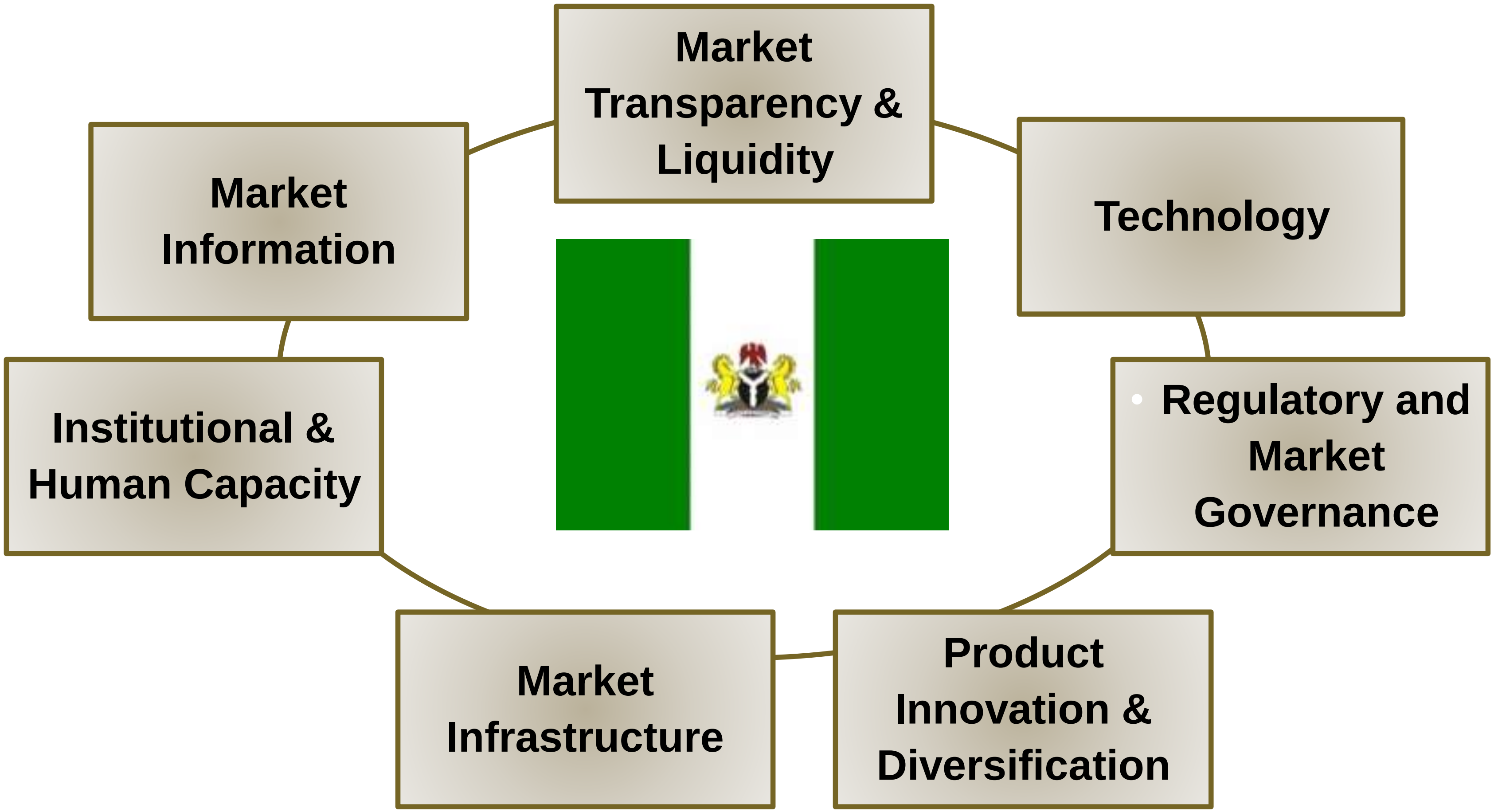
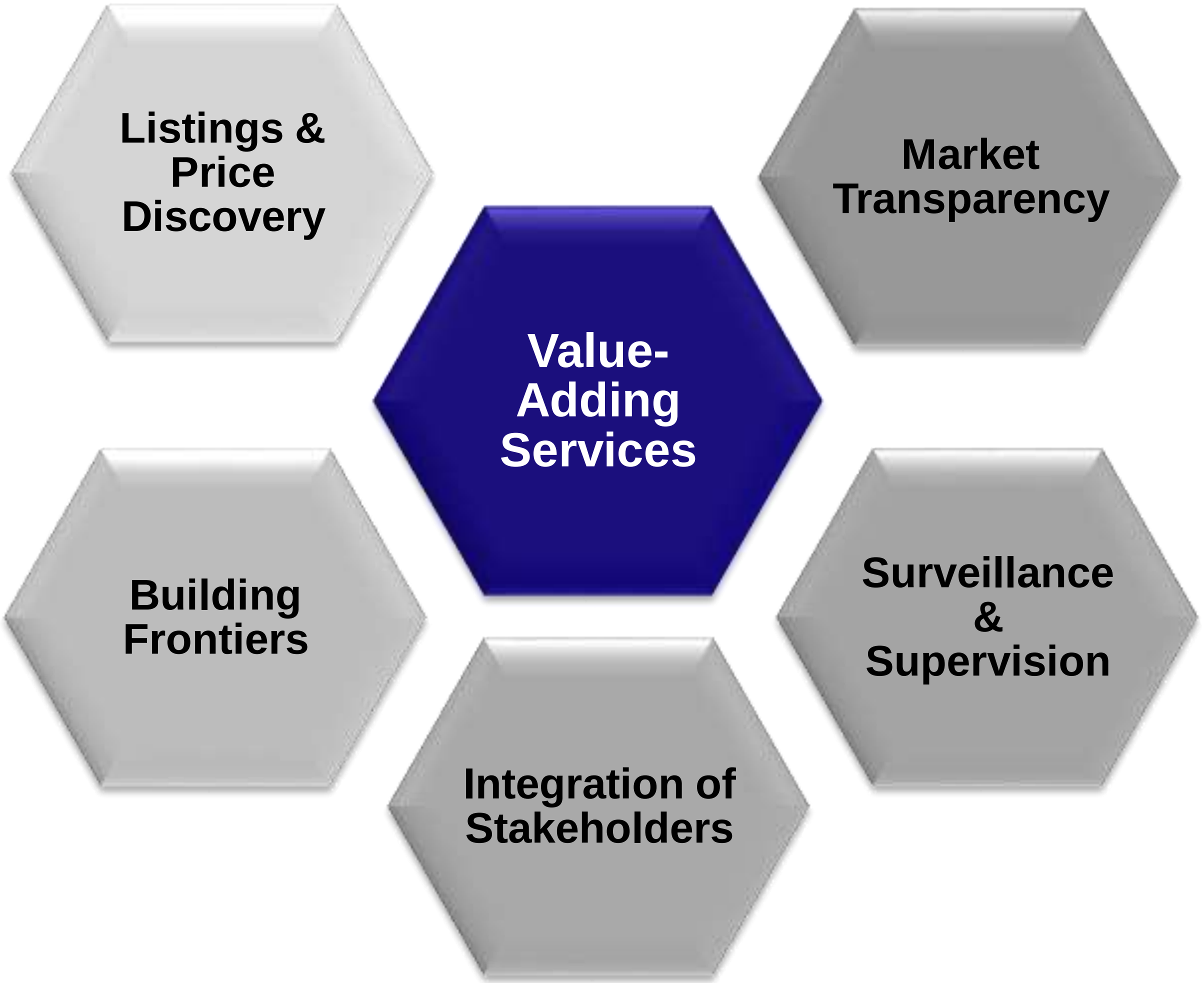
Global Competitiveness Review: Nigeria

How competitive is the Nigerian Debt Capital Market?



FMDQ Value-Adding Services



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FMDQ's Value-Adding Services../2

- **Listings & Price Discovery:** Without transparent price discovery of listed securities and instruments, the OTC market in Nigeria will not fulfil its potential in terms of development. Federal Government bonds are traded on a two-way quote basis. The liquidity of this market enhanced through the activities and obligations of FMDQ trading members will inspire market-making in other agency, state government or corporate bonds and support publication of realistic fair values. This will bolster confidence of stakeholders in the market

- **Market Transparency:** As an exchange, FMDQ will open new frontiers to the current opaque nature of the OTC market in Nigeria. The provision of price and volume data to the public - domestic and foreign, and detailed information to relevant regulators will establish new standards. The attraction to and confidence of investors in secondary market securities hinges heavily on the depth of transparency available through the exchange

- **Surveillance and Supervision:** With a broad and centralised market surveillance framework, FMDQ will provide world-class levels of orderliness, investor protection, prioritising accuracy and fairness in transactions. The technology strategy to be deployed by FMDQ will aid the required monitoring requirements. The volumes and sensitivity of securities and instruments traded in the OTC market and their importance to the economy make it imperative for the existence of a strong framework for governance

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FMDQ's Value-Adding Services../3

- **Integration of Stakeholders:** The FMDQ securities exchange will eventually facilitate further sophistication to the financial markets, by creating a unique platform for participants such as traditional banking institutions, investment banking firms and trading houses to eventually integrate. The opportunities for transfer of capital by the creation of a platform of this nature, can only provide further development to the Nigerian economy. This is line with FMDQ's mission to "empower the OTC financial markets to be innovative and credible in support of the economy"
- **Building Frontiers:** FMDQ is interested in working with the DMO to explore the deepening of a domestic Nigerian market to create investment opportunities in the DMO's Eurodollar bonds and state governments to develop their bond program. FMDQ is also committed to establishing a platform that can compete globally with other exchanges in terms of range of tradable instruments, liquidity, depth, volumes and access to capital

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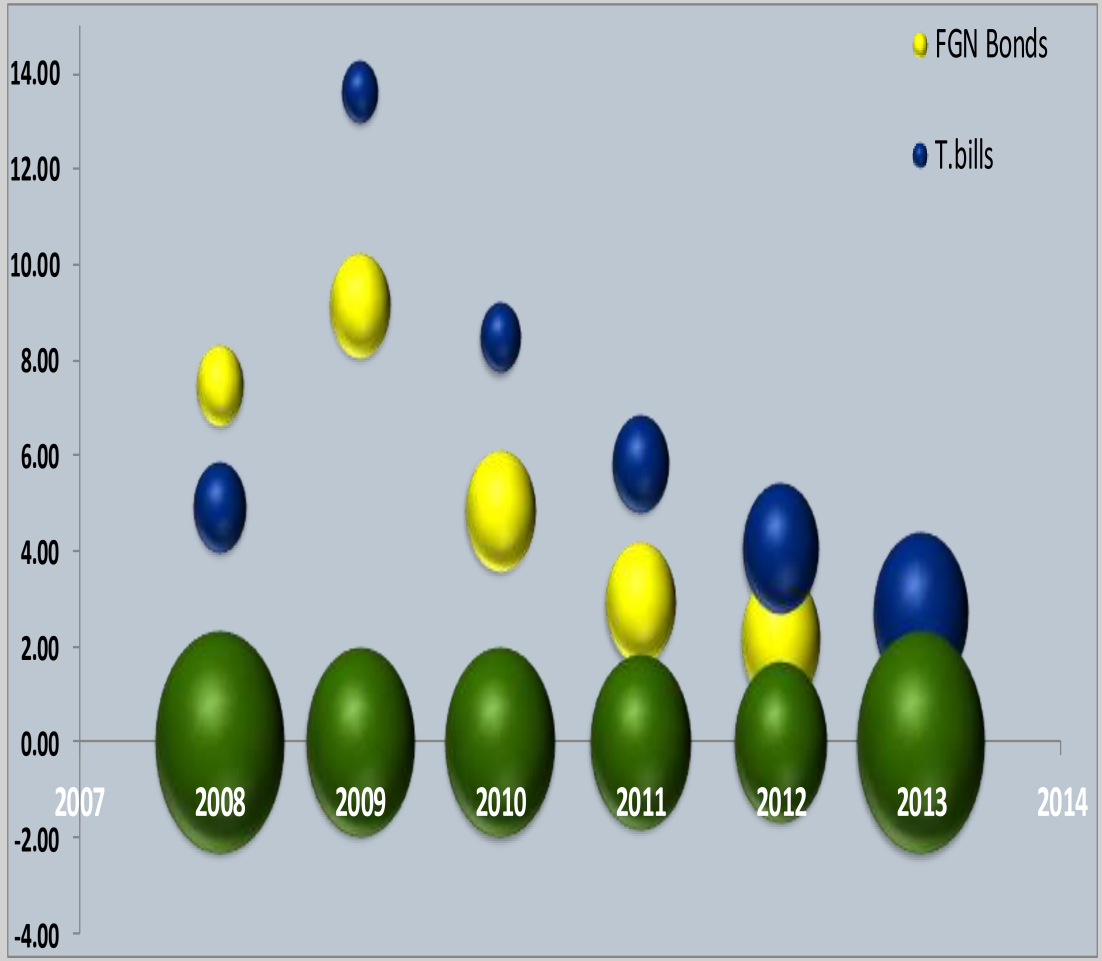
Enhanced Liquidity

Federal Government Bond is traded on a two-way quote basis. With the liquidity of the securities enhanced through the activities and obligations of the DMO-appointed Primary Dealers Market Makers (PDMMs). Some of the current FMDQ trading members are PDMMs and have capacity to support market making of non-sovereign bonds.

FMDQ's Daily Quotations List (DQL) will provide daily prices and fair values on all debt securities encouraging continuous price discovery. FMDQ is the only securities exchange with this value-adding service.

Source: FDHL Market Intelligence

Nigerian Financial Markets Sizing & Trading Intensity



Note : Bubble size indicates Market Capitalisation

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Unique Visibility

FMDQ-listed securities and instruments will be traded on a world-class technology platform making securities and instruments listed on the securities exchange visible to the international market.

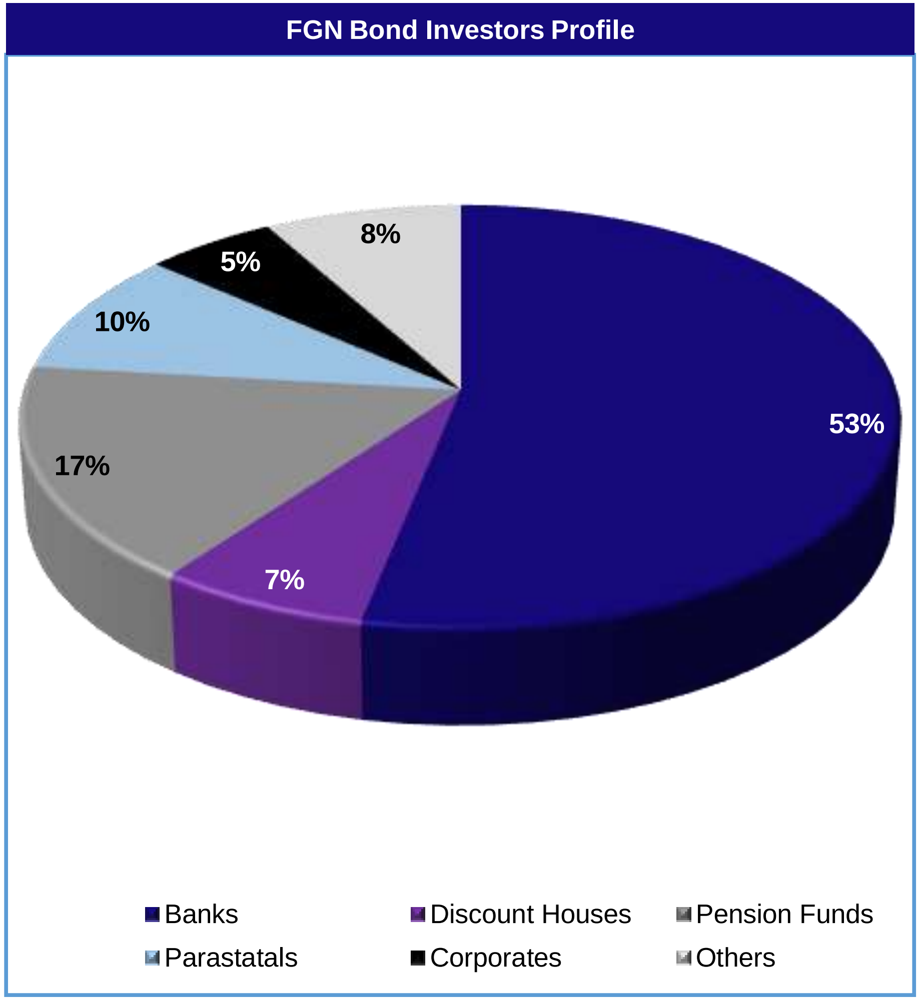
In addition, FMDQ's Daily Quotations List (DQL), is also be published in two national daily newspapers.

This blend of foreign and domestic visibility will facilitate visibility for the pricing of non-sovereign bonds. FMDQ will consolidate Nigeria's global competitiveness via its world-class operational excellence standard.

Broad Investor Pool

The FMDQ trading platform presents listed securities and instruments to a diversified base of investors thereby opening new frontiers for the Nigerian OTC market.

The provision of trade data and other market statistics to the stakeholders on FMDQ trading systems will boost investors' confidence and attraction to the Nigerian OTC market.



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Advocacy on Behalf of Issuers

Issuers, market makers, investors and other stakeholders are exposed to specific constraints and challenges peculiar to an emerging financial market.

CBN's directive to confer liquid asset status on eligible State Government bonds is one of the initiatives to encourage the issuance of bonds by the State Governments and also deepen the capital market.

FMDQ will facilitate the eligibility process for the non-sovereign bonds to qualify as liquid assets and as a collateral for CBN repo.

FMDQ's repo framework will be pivotal to the efficient functioning of the money market and development of the capital market.

FMDQ's liaison with the regulators and feedback have further reinforced the Exchange's belief in pursuing regular advocacy for stakeholders.