



FMDQ OTC Securities Exchange

Presentation to Capital Market Committee (CMC)

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Part 3	Update on Compliance with SEC Directives	7
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Outline

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Synopsis

S/N	Focus	Highlight	Status	Page
1.	Update on OTC Market Statistics	<ul style="list-style-type: none"> FMDQ OTC Market Sizing 		5
2.	Update on Compliance with SEC Directives	<ul style="list-style-type: none"> FMDQ Investor Protection Fund (IPF) Rules 		7
		<ul style="list-style-type: none"> Investor Protection Fund Board of Trustees 		7
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3.	Update on Debt Capital Market (DCM)	<ul style="list-style-type: none"> Listings and Quotations 		9
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LEGEND	
	Uptrend
	Downtrend
	Commenced (Work-In-Progress)
	Completed /Launched

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FMDQ OTC Market Sizing

	Turnover (N'trn)		
	Jul-16	Jan - Jun 2016	Jan - Jun 2015
Foreign Exchange	1.80	7.20	14.73
FX & Money Market Derivatives**	1.09	3.04	4.54
Treasury Bills	4.28	18.60	21.43
FGN Bonds	0.48	4.98	4.37
Other Bonds*	-	0.03	0.01
Eurobonds	0.01	0.03	0.03
Repurchase Agreements/Buy-Backs	3.95	13.77	16.68
Unsecured Placements/Takings	0.51	1.30	6.82
OTC FX Futures	0.61	-	-
	12.73	48.95	68.61
<i>USD equivalent ('mm)</i>	<i>43,400</i>	<i>232,442</i>	<i>348,858</i>
No. of Business Days	22	125	121
Average Daily Turnover (N'bn)	0.58	0.40	0.57
<i>USD equivalent ('mm)</i>	<i>1972.71</i>	<i>1,899</i>	<i>2,883</i>
Exchange Rate (USD/N)	293.32	210.59	196.67

mm - million ; bn - billion ; trn - trillion

*Other Bonds include Agency, Sub-national, Corporate and Supranational Bonds

** FX money markets and derivatives figure for July 2016 does not include OTC FX Futures

Figures may be subject to change due to potential adjustments from Dealing Members

Source: FMDQ Data Portal as @ July 29, 2016; Figures reported by Dealing Members on a week-ending basis

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Update on Compliance with SEC Directives

S/N	Initiative	Update	Compliance Status
1.	Investor Protection Fund (IPF)	<ul style="list-style-type: none"> FMDQ's received SEC's approval for its IPF Rules 	Green
		<ul style="list-style-type: none"> Post-approval of nominees by SEC, FMDQ commenced the process of constituting the IPF Board of Trustees 	Yellow
		<ul style="list-style-type: none"> The IPF Board of Trustees will be inaugurated in Q4 2016 	Yellow
2.	Review of Complaints Management Framework (CMF)	<ul style="list-style-type: none"> FMDQ's SEC-approved Complaints Management Framework (CMF) has been published on its website 	Green
		<ul style="list-style-type: none"> FMDQ has developed a Complaint Management Structure (CMS) to ensure effective implementation of the CMF; this Structure has been despatched to SEC 	Green

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FMDQ Listings & Quotations

Listings – A total of thirty (30) Bonds listed on FMDQ with a total value of ₦6.86trn

Product	Issuer Category	Total Listed	Face Value (₦'bn)
Bonds	FGN	18	6,691.87
	Corporate	10	153.40
	Sub-national	2	12.95
	Agency	-	0
	Supranational	-	0
Total		30	6,858.22

Total Number of Bond Listings @ H1 2016			
Product	Issuer Category	Total Listed	Face Value (₦'bn)
Bonds*	FGN	2	85.84
	Corporate	2	10.36
	Sub-national	0	0
	Agency	0	0
	Supranational	0	0
Total		4	96.20

Quotations – A total of thirty (28) Nigerian Treasury Bills (NTBs) and nine (9) Commercial Papers (CPs) have been quoted on FMDQ with a value of ₦3.20trn

Product	Issuer Category	Total Quoted	Face Value (₦'bn)
NTBs	FGN	28	3,096.87
CPs	Corporate	9**	99.96
Total		37	3,196.83

Total Number of Quotations @ H1 2016		
Product	Total Quoted	Face Value (₦'bn)
NTBs*	17	1,533.36
CPs	2	19.56
Total	19	1,552.92

*Excludes re-openings

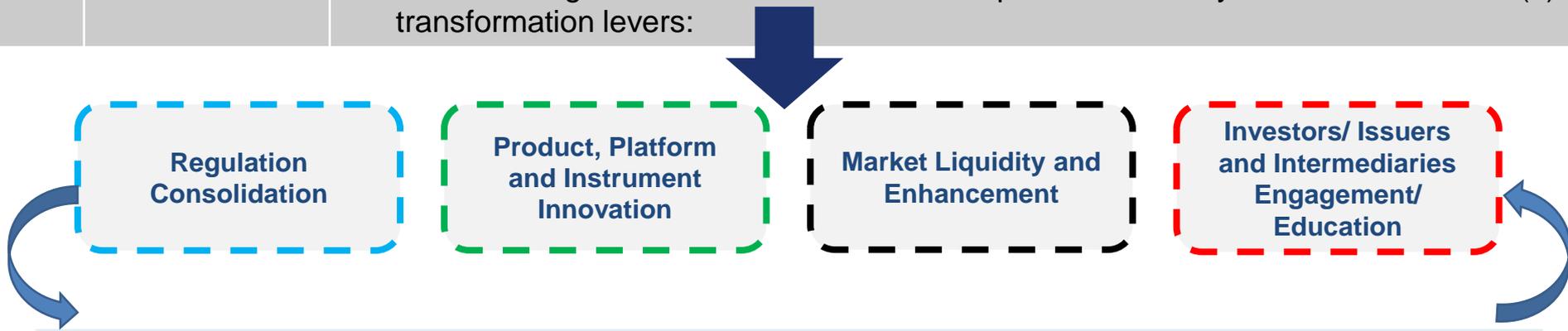
** Seven (7) CPs (₦80.40bn) matured and paid down

Debt Capital Market Initiatives

S/N	Initiative	Update
1.	Dealing Member (Specialists) (DMSs) Market Update	<ul style="list-style-type: none"> FMDQ currently has fifteen (15) DMSs that have successfully completed their membership registration and qualified to trade in the DMS market Active trading in the DMS market commenced on June 1, 2016, however only eight (8) institutions are currently trading Following the above, FMDQ has commenced the process for the activation of the integrated DMS market (next phase of the project plan) where Dealing Member (Banks) (DMBs) will act as “Settlement Banks” and Liquidity Providers for DMSs
2.	Bond Specialist System (BSS)	<ul style="list-style-type: none"> The Bond Specialist System (BSS) has been developed to boost liquidity in the non-sovereign bond market. The initiative is scheduled to be activated in Q3 2016
3.	Draft Fixed Income Securities Investment Client Services (FISICS) Rules	<ul style="list-style-type: none"> Following a review of the level of services offered by FMDQ Dealing Members to Clients investing in fixed income securities, FMDQ developed the Fixed Income Securities Investment Client Services (FISICS) Rules to guide the conduct of Dealing Members Banks and their Authorised Representatives with regards to services relating to Fixed income investment The Rules are currently being exposed to stakeholders in line with the FMDQ Rule Making Process
4	FMDQ Fixed Income Trading System Integration with CBN's Scripless Securities Settlement System (S4)	<ul style="list-style-type: none"> CBN has concluded development work on the solution architecture document and is currently evaluating the entire project strategy with a view to formally commencing implementation activities

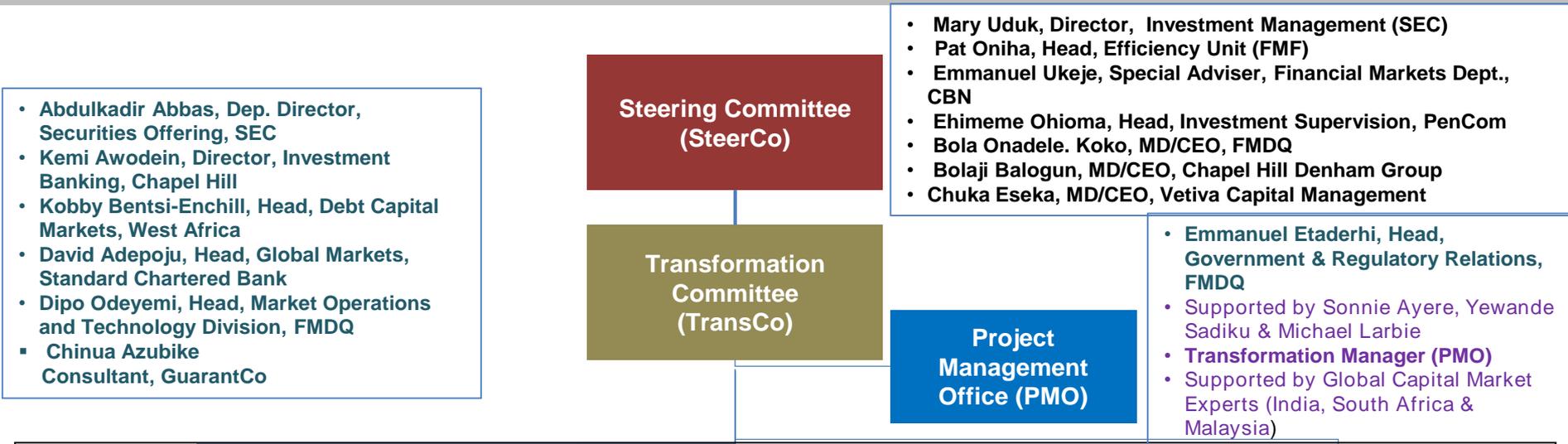
Overview of the Debt Capital Market Development Project

S/N	Initiative	Update
1.	Debt Capital Market Development (DCMD) Project	<ul style="list-style-type: none"> In a bid to develop the Nigerian debt capital market (DCM), FMDQ, in conjunction with other DCM stakeholders, set up a Workshop themed “The Nigerian Debt Capital Markets – Towards a Brighter Future” to identify the key challenges in the market, proffer recommendations and articulate implementable solutions towards the development of the market The challenges identified at the Workshop have been synthesised into four (4) transformation levers:



- In line with the transformation levers above, four (4) Sub-Committees (SubCos) were set up to review the resolutions/initiatives from the DCM Workshop
- The SubCos commenced work on April 21-22, 2016 and will be making their recommendations to the Transformation and Steering Committees to facilitate effective implementation of the DCM Reforms

DCMD Transformation Governance and Structure



- Abdulkadir Abbas, Dep. Director, Securities Offering, SEC
- Kemi Awodein, Director, Investment Banking, Chapel Hill
- Kobby Bentsi-Enchill, Head, Debt Capital Markets, West Africa
- David Adepoju, Head, Global Markets, Standard Chartered Bank
- Dipo Odeyemi, Head, Market Operations and Technology Division, FMDQ
- Chinua Azubike Consultant, GuarantCo

- Mary Uduk, Director, Investment Management (SEC)
- Pat Oniha, Head, Efficiency Unit (FMF)
- Emmanuel Ukeje, Special Adviser, Financial Markets Dept., CBN
- Ehimeme Ohioma, Head, Investment Supervision, PenCom
- Bola Onadele. Koko, MD/CEO, FMDQ
- Bolaji Balogun, MD/CEO, Chapel Hill Denham Group
- Chuka Eseka, MD/CEO, Vetiva Capital Management

- Emmanuel Etaderhi, Head, Government & Regulatory Relations, FMDQ
- Supported by Sonnie Ayere, Yewande Sadiku & Michael Larbie
- Transformation Manager (PMO)
- Supported by Global Capital Market Experts (India, South Africa & Malaysia)

Sub-Committees (SubCos)

Regulation Consolidation
Chair, Chinua Azubike

Product & Infrastructure
Chair, Dipo Odeyemi

Market Liquidity & Enhancement
Chair, David Adepoju

Investors/ Issuers & Intermediaries Engagement /Education
Chair, Kobby Bentsi Enchill

Planning Committee /FMDQ/ Consultant Representatives

- | | | | |
|--|--|---|--|
| <p>Representatives</p> <ul style="list-style-type: none"> • Market • PenCom • CBN, FIRS, CAC • CMSA • NIA • NAICOM, DMO • SEC, FMF • AIICO • PFA • FMDQ | <ul style="list-style-type: none"> • Market • NMRC • Infrastructure Bank • Development Finance Institutions (DFIs) (BOI, NEXIM, IFC) • AIHN • CMSA • FMDQ | <ul style="list-style-type: none"> • Market • CBN • Custodian • PenCom • PFA • CSCS • FMDA • FMDQ | <ul style="list-style-type: none"> • Market • Custodian/Trustees • PFA • Rating Agencies • DMO • Commercial Banks • Capital Market Associations (SFCGN, CMSA) • FMAN • FMDQ |
|--|--|---|--|

Interim Report by SubCos

Product & Infrastructure Innovation SubCo

S/N	Challenges/Initiatives from DCMD Workshop	Interim Recommendations/Action Steps by the SubCo
1.	Government Guarantees & Partial Guarantees from Development Finance Institutions (DFIs)	<ul style="list-style-type: none"> ▪ The SubCo is working on drafting a Position Paper to the Central Bank of Nigeria, Ministry of Finance, Senate and House Committees on Capital Market about the possibility of the provision of guarantees for infrastructure bonds instead of the direct disbursement of funds into these projects ▪ In addition, the SubCo is also looking at the possibility of the Federal Government of Nigeria adopting the Malaysian and Chinese government models of owning guarantee companies as a long term model ▪ Provision of partial risk guarantees by Guarantee Companies or DFIs
2.	A modification to the Indian Model on Small and Medium-Scale Enterprises (SMEs) Bundling can be adopted for the provision of debt capital market financing for SMEs in Nigeria	<ul style="list-style-type: none"> ▪ Designated SubCo members are scheduled to visit some Non-Bank Financial Institutions that specialise in SME financing to determine what arrangements can be made through them on the proposed SME bundling structure. The possibility of collaboration is being explored with the following institutions: <ul style="list-style-type: none"> - Bank of Industry (BOI) - Enhancing Financial Innovation & Access (EFInA) - Growth and Finance (GroFin)
3.	Implementable approaches for the creation of infrastructure instruments	<ul style="list-style-type: none"> ▪ Due to the recent uncertainties around foreign exchange, funding can be raised for infrastructure projects in the local market, as there currently exists local investors that will be willing to take up infrastructure bonds for brownfield projects, with appropriate structures put in place

Interim Report by SubCos../2

Market & Liquidity Enhancement SubCo

S/N	Challenges/Initiatives from DCMD Workshop	Interim Recommendations/Action Steps by the SubCo
1.	Further development of the Nigerian derivatives market as a necessary condition to boost market liquidity	<ul style="list-style-type: none"> The SubCo is researching the feasibility of introducing interest rate swaps as one of the key derivative products that could boost market liquidity in the Nigerian DCM and will make appropriate recommendations to the TransCo accordingly
2.	Reform of the financial markets legislations	<ul style="list-style-type: none"> The Subco will review key legislations required to deepen market liquidity taking a cue from benchmark jurisdictions in terms of what was done to boost stability, confidence and sustainability of market liquidity in these jurisdictions
3.	Introduction of more flexible and less costly DCM instruments	<ul style="list-style-type: none"> SubCo has engaged in the comparison of issuance costs in the Nigerian DCM with other markets Recommendations will be made to the TransCo accordingly
4.	Pension Fund Reforms: <ul style="list-style-type: none"> Industry has covered only approximately 8% of the working population Financing infrastructure gap 	<ul style="list-style-type: none"> The SubCo is working on drafting a Position Paper on current updates in the Nigerian Pension Industry and how it has been able to support the DCM. The review will include a comparison, with what has been done in other benchmark markets e.g. Mexico
5.	Limited activities in the debt capital market	<ul style="list-style-type: none"> Engage the DMO/ FMF on the need for the Federal Government, through its various agencies and ministries, to enhance the Non-sovereign bonds market via the issuance of Agency bonds e.g. the NMRC Bonds

Note:

DMO – Debt Management Office

FMF – Federal Ministry of Finance

Interim Report by SubCos../3

Investors, Issuers & Intermediaries Education/Engagement SubCo

S/N	Challenges/Initiatives from DCMD Workshop	Interim Recommendations/Action Steps by the SubCo
1.	Insufficient fixed income credit ratings available to the markets	<ul style="list-style-type: none"> ▪ Credit ratings from the various Rating Agencies should go to FMDQ, as an SRO, and also be published on its website ▪ SEC to place sanctions on issuers in breach of ratings obligations in order to enforce appropriate corporate behavior ▪ SubCo to propose that scores should be assigned to the corporate governance section of rating reports
2.	Inadequate education and enlightenment for potential issuers, especially mid-tier corporates, particularly in the area of corporate governance	<ul style="list-style-type: none"> ▪ Enlightenment programs to be conducted for issuers, enumerating the benefits of having a good corporate governance code ▪ FMDQ, as an SRO, should engage SEC on the enforceability of the Corporate Governance Code for public companies
3.	Low Investors Confidence in the Debt Capital Market	<ul style="list-style-type: none"> ▪ Training and enlisting the intermediaries in enlightenment programs ▪ Designing easy-to-understand products for intermediaries and retail investors
4.	Enhance DCM research and improve collaborations across the DCM ecosystem	<ul style="list-style-type: none"> ▪ Include learning page on FMDQ website; leverage on FMDQ Academy for knowledge transfer initiatives ▪ Organise periodic trainings for corporates to intimate them of the potential benefits of issuing bonds ▪ Leverage on methodology adopted during the equities boom, and remodel to boost growth in the fixed income market ▪ Develop appropriate training interventions for Issuers, Investors & Intermediaries

Interim Report by SubCos../4

Regulation Consolidation SubCo

S/N	Challenges/Initiatives from DCMD Workshop	Interim Recommendations/Action Steps by the SubCo
1.	Tax Exemption Orders issued in 2011 will expire on January 1, 2022	<ul style="list-style-type: none"> The SubCo to confirm that tenors of bonds issued with maturities beyond 2022 will not be affected by the Expiration of Tax Exemption Orders in January 1, 2022
2.	CBN Regulation on Limit for Banks Investment in Bonds to 10%	<ul style="list-style-type: none"> To engage CBN on the limitations of the restrictive 10% limit for banks' investment in Bonds and the need to increase the limit for banks' investment in Bonds to circa. 20%; whilst benchmark may be set based on the ratings on the instruments
3.	Harmonisation and streamlining of DCM regulatory framework/Rules	<ul style="list-style-type: none"> SubCo to seek interpretive guidance on specific market Rules from SEC for the benefit of market players
4.	Restrictive Fixed Income Investment Regulation Limiting Insurance Sector participation in Nigerian DCM	<ul style="list-style-type: none"> Review of all Restrictive Regulations in the Insurance Industry hampering investments in DCM products SubCo to make recommendations to NAICOM to consider reviewing restrictive regulations
5.	Current tax waiver on corporate debt securities do not cover other fixed income instruments (Asset-Backed Securities, Mortgage Backed Securities)	<ul style="list-style-type: none"> Engage DMO on the level of taxation on ABS Confirm if ABS is more tax efficient as a Trust SPV Transaction.
6.	High cost of stamping the Security Deed, perfection of security on secured corporate bonds	<ul style="list-style-type: none"> The SubCo will liaise with the FIRS and CAC on the reduction of these charges in order to increase the issuance of debt instruments with Credit Enhancement provisions

DCMD Project - Next Steps

Next Action Steps

- The members of the four (4) SubCos are currently working on the various tasks/deliverables aimed at developing key recommendations for the development of the Nigerian DCM
- A Summary Report/Position Paper will be developed and sent to the TransCo on August 24, 2016



Key Timelines

▪ Activate TransCo	August 31
▪ Activate SteerCo	October 31
▪ DCMD Project Launch	Next CMC

Thank you for your attention



FMDQ
OTC Securities Exchange
...empowering the Nigerian debt capital & FX markets



Global Competitiveness ■ Operational Excellence ■ Liquidity ■ Diversity