



Engendering Transparency & Liquidity in the Foreign Exchange and Fixed Income Markets

Bola Onadele. Koko
Managing Director/CEO
May 8, 2018



Defining Transparency and Liquidity in FIC Markets

2.

Overview of the Nigerian FIC Markets

4.

Importance of Transparency and Liquidity in the FIC Markets

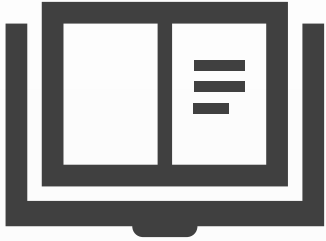
7.

Global Emerging Themes on Enhancing Transparency and Liquidity

10.

FMDQ and its Role in Driving Transparency and Liquidity in the FIC Markets

12.



Nigerian FIC Markets Coverage

- *Foreign Exchange*
- *Treasury Bills*
- *Bonds*
- *Repurchase Agreements*
- *Unsecured Placements & Takings*
- *Commercial Papers*



TRANSPARENCY

- The widespread availability of information relating to current opportunities to trade and recently completed trades – [IOSCO* \(November, 2001\)](#)
- Ready access to required financial information

LIQUIDITY

- The ability of a market to absorb large volumes of transactions without causing volatility in prices/ significant change in asset prices
- Most evident where minimal differences exist in the spread between the bid/ask prices of securities/instruments

**International Organization of Securities Commissions*



Defining Transparency and Liquidity in FIC Markets

2.

Overview of the Nigerian FIC Markets

4.

Importance of Transparency and Liquidity in the FIC Markets

7.

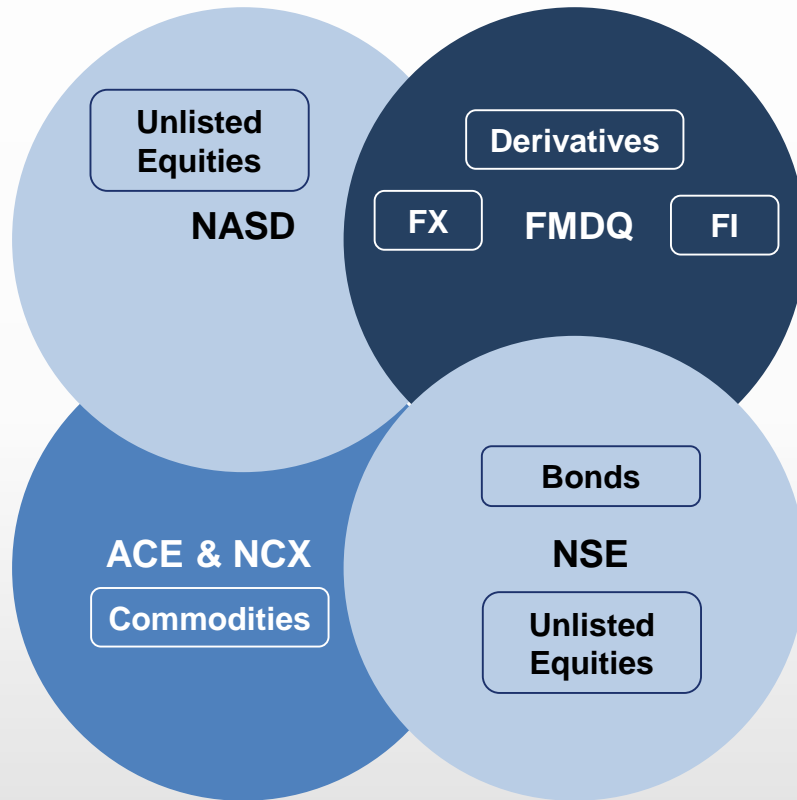
Global Emerging Themes on Enhancing Transparency and Liquidity

10.

FMDQ and its Role in Driving Transparency and Liquidity in the FIC Markets

12.

Overview of the Nigerian FIC Markets



Market Turnover (\$'bn)				
Exchange	2014	2015	2016	2017
NCX	N/A	N/A	N/A	N/A
ACE	N/A	0.01	N/A	0.01
NASD	0.02	0.26	0.04	N/A
NSE	8.61	4.78	2.26	4.03
FMDQ	647.31	697.95	444.84	447.35

, *Near Estimate

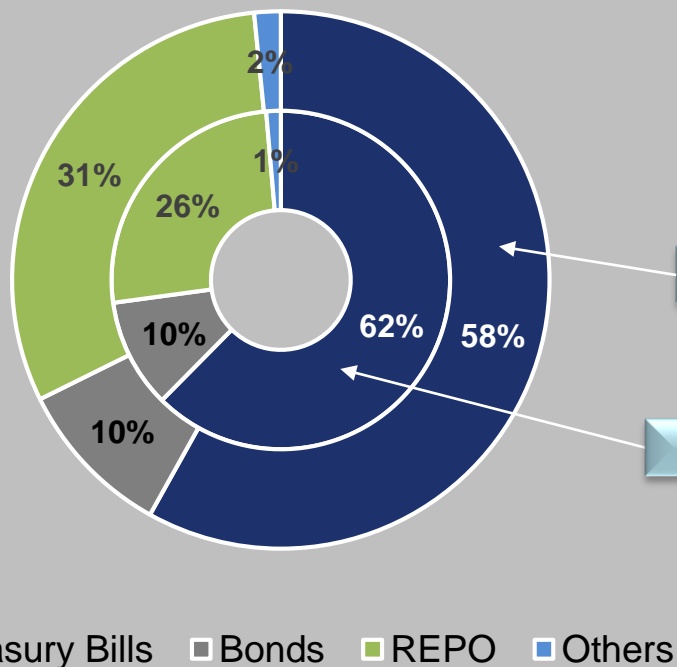
ACE: AFEX (African Exchange Holdings) Commodity Exchange; **FI:** Fixed Income; **FMDQ:** FMDQ OTC Securities Exchange; **FX:** Foreign Exchange; **NASD:** NASD PLC; **NCX:** Nigerian Commodities Exchange; **NSE:** The Nigerian Stock Exchange; **N/A:** Not Available

Overview of the FMDQ FIC Markets../2

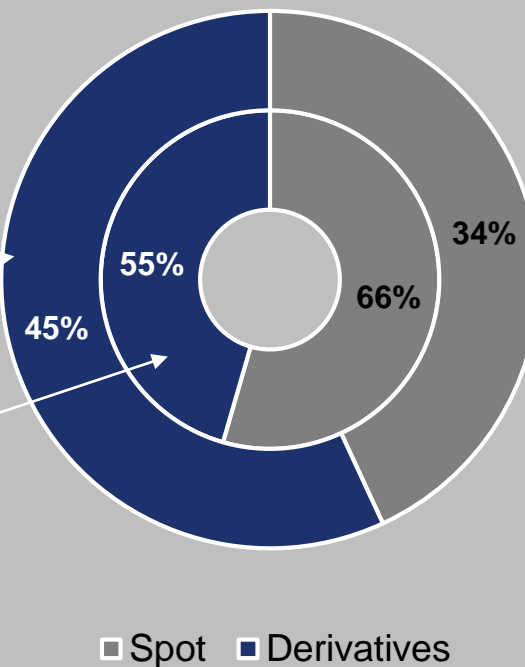
Period	FI Product Category (\$'mm)			
	T.bills	Bonds	Repo	Others
FY 2017	190,321	31,456	100,673	5,168
Q1 2018	46,931	7,855	19,386	1,043

Period	FX Product Category (\$'mm)	
	Spot	Derivatives
FY 2017	65,946	53,693
Q1 2018	28,858	14,826

FI Market Turnover



FX Market Turnover





Defining Transparency and Liquidity in FIC Markets

2.

Overview of the Nigerian FIC Markets

4.

Importance of Transparency and Liquidity in the FIC Markets

7.

Global Emerging Themes on Enhancing Transparency and Liquidity

10.

FMDQ and its Role in Driving Transparency and Liquidity in the FIC Markets

12.

Benefits of Transparent FIC Markets

Improves Market Efficiency

Price discovery in the markets is promoted, leading to more efficient markets where quoted asset prices reflect their intrinsic values (i.e. arbitrage-free prices).

Promotes Competitive Pricing

Significant reduction in transaction costs for market participants are better achieved through competitive pricing.

Boosts Liquidity

Information asymmetry is reduced, thereby lowering bid-ask spreads and encouraging increased market activity.

Reduces Market Risk

Investors are able to better manage their risks as a result of make informed investment decisions made possible by transparency.

“Improved, Well-Targeted Transparency is an essential element in preserving financial stability”

Donald Kohn
(Vice Chairman, Board of Governors, Federal Reserve 2006 – 2010)

Benefits of Liquid FIC Markets

Improves Data Reliability

Quality and reliability of pricing data for investment decision is higher in liquid markets due to the availability of more trade data.

Promotes Financial System Stability

Liquid markets ensure market participants can effectively hedge risks and meet funding needs.

Aids Economic Growth

Domestic and foreign participation is encouraged in liquid markets thereby contributing to economic growth

Facilitates Risk Allocation

The efficient distribution of risk across market participants is facilitated by increased market activity.

“The high degree of liquidity in U.S. capital markets historically has contributed to the efficient allocation of capital through lower costs and a mix of bank- and market-based finance that supports the flexibility of these market

Stanley Ficher (Vice Chairman of the Federal Reserve 2014 – 2017)



Defining Transparency and Liquidity in FIC Markets

2.

Overview of the Nigerian FIC Markets

4.

Importance of Transparency and Liquidity in the FIC Markets

7.

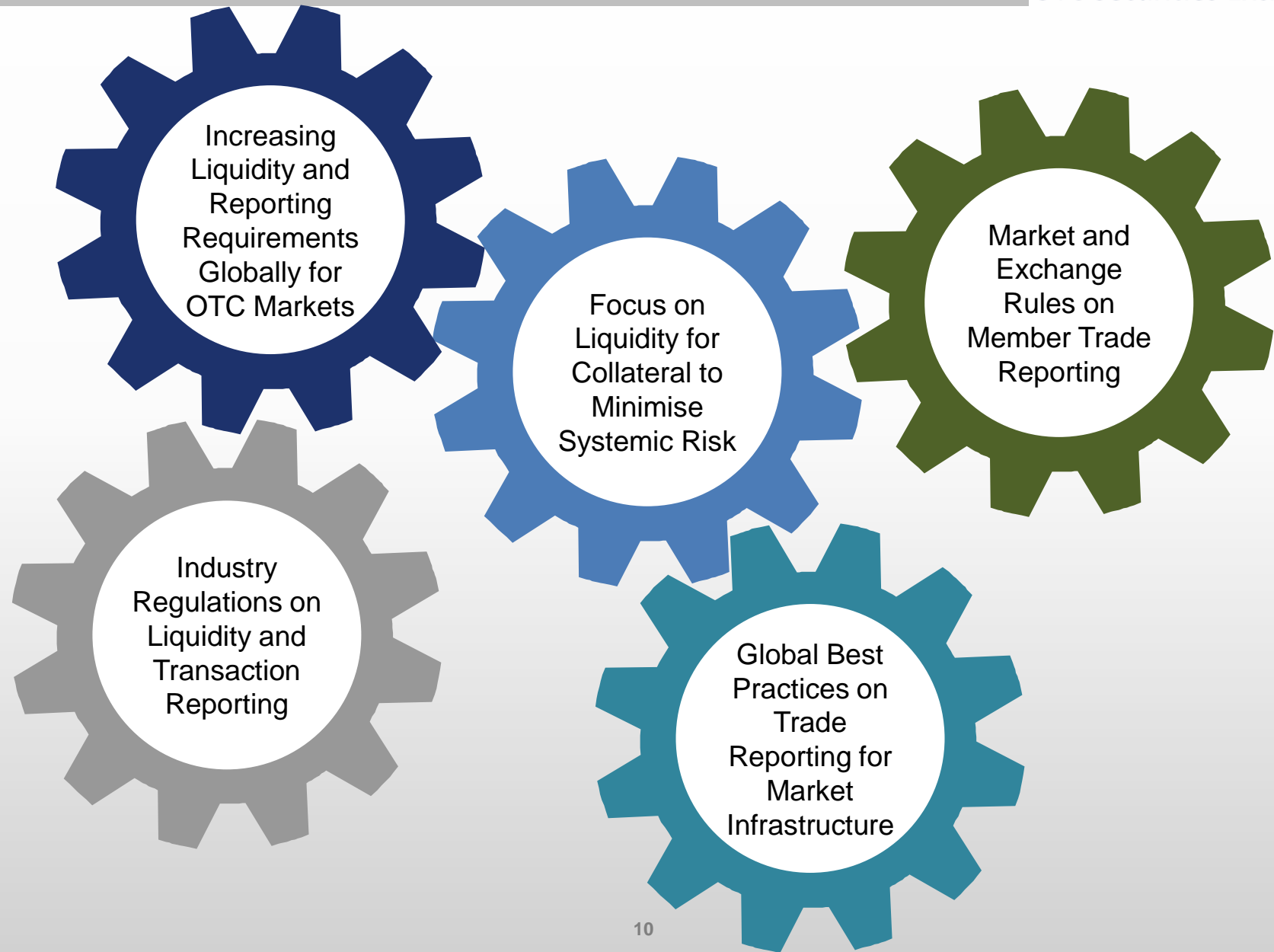
Global Emerging Themes on Enhancing Transparency and Liquidity

10.

FMDQ and its Role in Driving Transparency and Liquidity in the FIC Markets

12.

Global Emerging Themes on Enhancing Transparency and Liquidity



Global Transparency and Liquidity Standards

G20 Principles	EMIR	IOSCO	ICMA
Strengthening transparency & accountability	Reporting of derivative contracts to trade depositories	Regulatory issues raised by the impact of changes on market integrity and efficiency	Mandatory central clearing for standardised OTC derivative products
Enhancing sound regulation	Market participants risk management of non-centrally cleared derivatives	Principles to address dark liquidity	Initial mandatory disclosure standards for prospectuses for debt securities issuances
Reinforcing international cooperation	Regulatory consolidation of rules and standards across the EU	Transparency of structured finance products	ICMA rules and recommendations for the secondary market
Promoting integrity in financial markets	Established overarching regulation	Disclosure principles for public offerings and listing of asset-backed securities	Bond market liquidity library

G20: Group of Twenty

EMIR: European Market Infrastructure Regulation

IOSCO: International Organisation of Securities Commission <http://www.fsb.org/source/iosco/page/6/>

ICMA: International Capital Markets Association <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/>



Defining Transparency and Liquidity in FIC Markets

2.

Overview of the Nigerian FIC Markets

4.

Importance of Transparency and Liquidity in the FIC Markets

7.

Global Emerging Themes on Enhancing Transparency and Liquidity

10.

FMDQ and its Role in Driving Transparency and Liquidity in the FIC Markets

12.

FMDQ's Strategic Role in the Ecosystem

Market Organiser

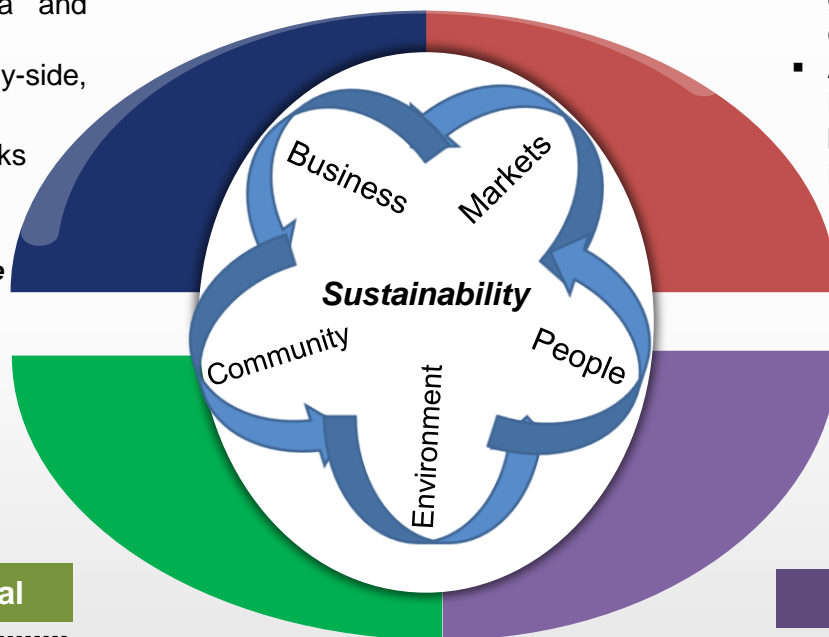
- Promoting transparency, liquidity, market efficiency and market conduct
- Providing access to market data and information to market participants
- Integrating issuers, sell-side, buy-side, retail investors and all end-users
- Minimising credit and operational risks
- Facilitating market education



Organised Markets



Post-trade Services



Adviser to Government & Regulators

- Championing innovative measures and frameworks to enhance government revenue, access to capital and financial markets
- Advising and advocating an all-inclusive approach considering global best practices to the articulation of initiatives and reforms to government, regulators and associations



Advocacy



Advisory

Catalyst for Infrastructure Capital

- Promoting innovative private sector-led solutions to the nation's housing challenge
- Projecting the debt capital market as the key source of finance for infrastructure development



Housing and Infrastructure Capital



Sustainable Finance

Financial Markets Diplomat

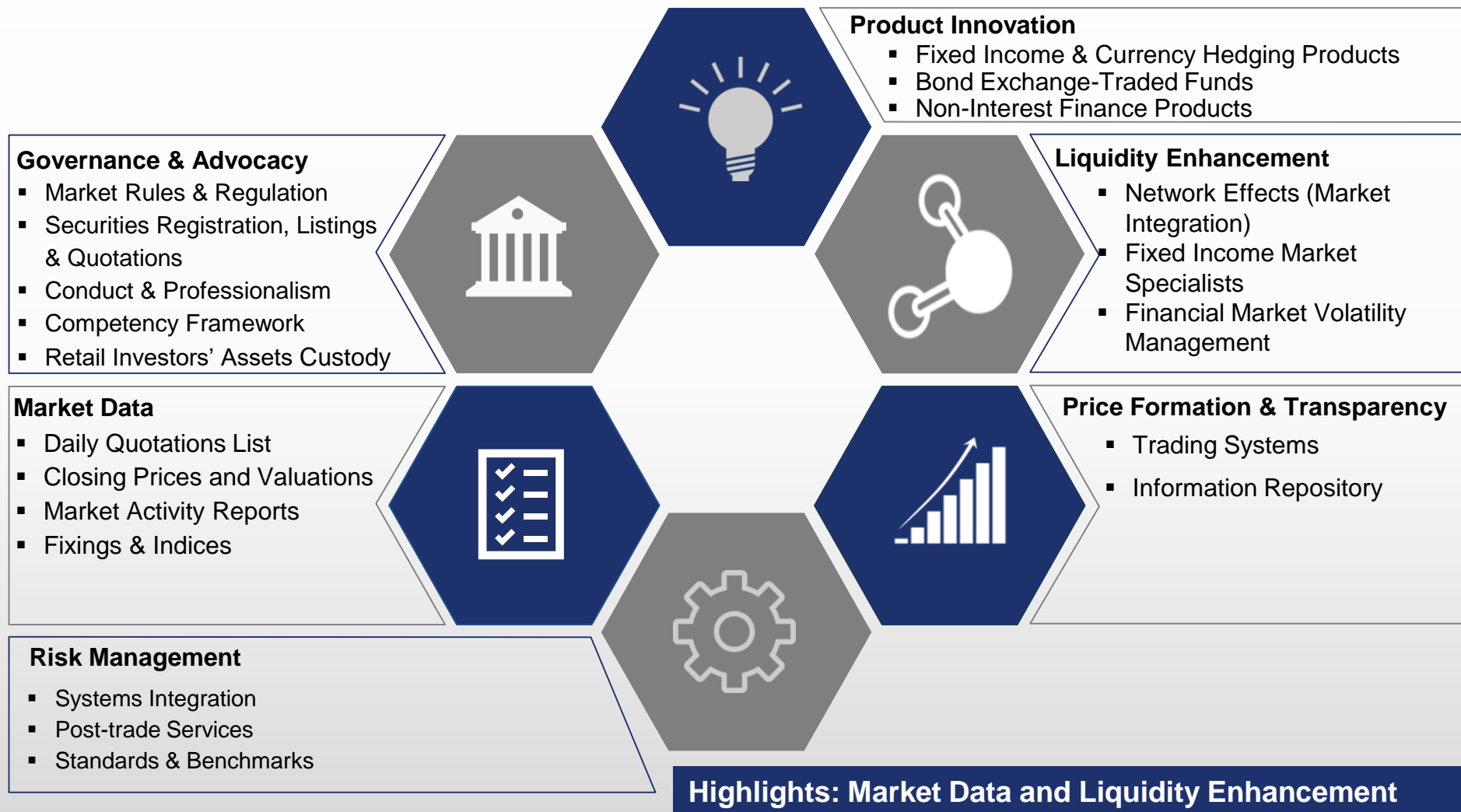
- Promoting Nigeria as the investment destination in Africa
- Disseminating unbiased financial markets information



Integration With External Markets



Foreign Capital



Transforming the Nigerian FIC Markets



Market Regulation

Commercial Paper Quotation
Rules & Process

Bond Listing Rules & Process

Sukuk & Short-term Bonds Listing Rules
& Process

Trading Standards and Guidelines

Private Companies Bonds Noting
Service

Complaints
Management
Framework

Investor
Protection Fund



Market Organisation

FMDQ
Membership
Offerings

Settlement
Guarantee Fund



Market Infrastructure and Ancillary Systems

Post-Trade Services
(FMDQ Clear)

Trade Repository

Orderbook, RFQs*
and AFOs**

Proprietary Trading
Systems

Price Ticker Tape

FMDQ e-Markets
Portal



Market Surveillance

FMDQ Bloomberg
E-Bond

Thomson Reuters
Market Tracker

Buy-Side Trading
System

Futures Trading
System

Proprietary Market
System

Monitoring and
Examination



Market Development

Naira-Settled OTC
FX Futures

Fixed Income
Specialists System

FMDQ Derivatives
Market Project

Global Standard
Benchmarks

Daily Quotations &
Market Intelligence
Reports

Market Education – FMDQ Academy

■ Market Infrastructure
■ Ancillary Systems

G20 Recommendations on OTC Derivatives Market

Pre- and Post-Trade
Transparency

Enhanced Governance
Structure

Straight-Through-
Processing

Automated Clearing
Arrangements

* Request for Quotes ** Anonymous Firm Orders

About

₦124 (**\$560** billion)
trillion
average annual turnover



143
Members

across the Nigerian financial markets

25 Corporate bonds
(excl. Eurobonds), valued at

₦415 (**\$1.49** billion)
billion

15 Registered Commercial
Paper Programmes, valued at

₦1 (**\$3.64** billion)
trillion

73 Quoted Commercial
Papers, valued at

₦482 (**\$1.74** million)
billion



Over **255** Listed/Quoted
Federal Government of Nigeria
Debt Securities, valued at over

₦48 (**\$199** billion)
trillion

4 Global Standards **Benchmarks:**

- Nigerian Autonomous Foreign Exchange Fixing (**NAFEX**)
- Nigerian Foreign Exchange Fixing (**NiFEX**)
- Nigerian Inter-bank Offered Rate (**NIBOR**)
- Nigerian Inter-bank Treasury Bills' True Yield Fixing (**NITTY**)

Over

\$12
billion

OTC FX Futures Traded
(circa **\$9 billion** settled)

African Securities Exchanges Association
(Full Member)

International Capital Market Association
(Full Member)

World Federation of Exchanges
(Affiliate Exchange)

Thank you for your attention!



...empowering the Nigerian debt capital & FX markets