

FDMQ Launches Exchange-Traded Derivatives Market

FMDQ Securities Exchange Limited, a wholly owned subsidiary of FMDQ Group PLC, has launched its Exchange-Traded Derivatives market (the "**FMDQ ETD Market**"). The ETD market went live on 12 July 2023 with 36 contracts across two products: Federal Government of Nigeria (FGN) Bond Futures and Standard FX Futures. This development aims to introduce exchange-traded risk hedging products to the Nigerian financial markets, as is obtainable in other developing and developed financial markets globally.

Exchange-traded derivatives (**ETDs**) are financial contracts that are tradable on exchanges. They have an underlying asset, which can range from equity securities, bonds, commodities, currencies, etc. These financial contracts derive their value from the price fluctuation of these underlying assets. ETDs can be used to hedge exposure to financial market risks. Futures and options are two of the most popular ETDs.

In contrast to ETDs, over-the-counter (OTC) derivatives are negotiated and executed directly between individuals and have customized/flexible terms and conditions. They do not have any intermediaries and are not subject to market regulations. ETDs, however, are standardized with market infrastructures discharging clearing and settlement in between transactions.

It is expected that the standardized nature of ETDs will make it easier for investors to determine essential information about what is being traded. In addition, the standardized nature of ETDs will ensure a high level of transparency in terms of price discovery. Therefore, it is expected that investors will be able to take advantage of the liquidity by offsetting their contracts when needed. This can be done by selling the current position out in the market or buying another position in the opposite direction. Velocity and liquidity also make it easier for market participants to find other parties to sell to or take positions against.

Under the SEC Rules on Regulation of Derivatives and Central Counterparties 2019, all ETD contracts are to be cleared by a central clearing counterparty (CCP) registered/recognized by the Securities and Exchange Commission. CCPs help manage counterparty credit risk in derivatives markets, which in turn functions as a firewall in the overall management of systemic risk. Where an exchange, such as FMDQ Securities Exchange Limited, is connected to a clearing entity, as is the case in the FMDQ ETD Market, this will help mitigate counterparty credit risk in that the CCP will act as a counterparty to every trade. In such circumstances, participants who transact on derivatives exchanges are not saddled with worries about the creditworthiness of their counterparties.

It is envisaged that the launch of the FMDQ ETD Market will deepen the Nigerian financial markets by facilitating capital flows, reducing cost of capital, and promoting secondary market liquidity.

Contact Details



Ajibola Asolo
Partner

M +234 810 216 4161
E Ajibola.Asolo@aluko-oyebode.com



Bukola Akinsulere
Senior Associate

M +234 906 298 1755
E Bukola.Akinsulere@aluko-oyebode.com



Michael Nwanneka
Senior Associate

M +234 906 298 1751
E Michael.Nwanneka@aluko-oyebode.com

Further information about the firm, its practice areas, client briefing notes and details of seminars/events are available at www.aluko-oyebode.com. This is a publication of Aluko & Oyebode and is for general information only. It should not be construed as legal advice under any circumstances. For further information, please contact us at ao@aluko-oyebode.com.