



FMDQ Clear and Frontclear partner to deliver first-class clearing structure in Nigeria

31 May 2018. Today, FMDQ Clear Limited and Frontclear signed an agreement to jointly enhance Nigeria's first central clearing house structure, with the support of a settlement guarantee fund. The collaboration is the culmination of a long-standing working relationship focused on improving how the Nigerian OTC financial market functions and follows-on an initial introduction via the International Capital Market Association (ICMA), of which FMDQ is a full Member and Frontclear a long-standing partner.

FMDQ Clear Limited (FMDQ Clear) and Frontclear have joined to realize a first in the Nigerian market. Combined, they will facilitate a clearing structure to strengthen the OTC market liquidity. FMDQ Clear, a central clearing house positioned to deliver end-to-end clearing and settlement services that will help enhance integrity and eliminate the inherent risks to bilateral trades in the Nigerian capital market, will be backed by Frontclear's core financial guarantee product, thereby improving the creditworthiness of participating counterparties and reducing initial set-up costs. A wholly-owned subsidiary of FMDQ OTC Securities Exchange, who provides a platform for the registration, listing, quotation, noting, trading, order execution and trade reporting of fixed income, currency and derivatives products in the Nigerian financial markets, FMDQ Clear has been engaged by the OTC Exchange to carry out post-trade services for transactions executed in its cash and derivatives markets.

The Frontclear guarantee will, in practice, function like a settlement/credit guarantee fund typical to more developed financial markets. Upon default of a clearing member, Frontclear guarantees any mark-to-market losses incurred by any other counterparty clearing or dealing member(s), and up to a pre-agreed maximum amount. With this guarantee fund, FMDQ Clear can significantly improve access to a breadth of financial products such as interest rate and currency derivatives, and repurchase agreements (repos), especially for smaller dealing members who may have been previously excluded because of perceived counterparty credit risk.

A joint Frontclear Technical Assistance Programme (FTAP) project explored the feasibility of establishing clearing infrastructure in Nigeria as well as the most suitable design of such infrastructure for the Nigerian market. This effort was made possible with the support and input from key Nigerian financial services regulators, including the Securities and Exchange Commission, Nigeria (SEC) and the Central Bank of Nigeria (CBN), as well as the local banking industry. FMDQ Clear participants will have access to further Technical Assistance provided by Frontclear as needed, including trainings on repo accounting and margining, amongst others.

FMDQ Clear, which will be the first of such infrastructure in Africa, with a third-party settlement guarantee arrangement that improves on settlement finality, is positioned to becoming a world-class central clearing house, with robust risk waterfall supported by settlement guarantee fund, and strong governance and risk frameworks to clear products in the cash, repos and derivatives markets, and is exemplary of Frontclear's development impact rationale: catalyzing transactions that support healthy money markets and stable financial systems. The establishment of this clearing infrastructure will greatly contribute to making the Nigerian interbank market globally competitive, operationally excellent, liquid and diverse, in line with FMDQ Group's GOLD Agenda for the transformation of the Nigerian financial markets, as participating

clearing and dealing members will have expanded access and in turn, be better able to serve the needs of their client base and the real economy.

“In our stride to position our markets on the path of increased liquidity and global competitiveness, the FMDQ-Frontclear guarantee fund initiative is a landmark achievement positioned to engender market integrity, which will bolster liquidity and financial system stability in the Nigerian economy.”

– Bola Onadele. Koko, Managing Director/Chief Executive Officer, FMDQ Group

“We are excited to play such a catalytic role towards improved liquidity and price discovery in Nigeria. Working with FMDQ is a natural fit.”

– Philip Buyskes, Chief Executive Officer of Frontclear

About FMDQ Group

FMDQ Clear, a financial market infrastructure (FMI), is a clearing and settlement entity registered by the apex capital market regulator in Nigeria, the Securities and Exchange Commission (SEC) to, *inter alia*, facilitate the clearing, settlement and delivery of securities and financial market products within the Nigerian capital market. A wholly-owned subsidiary of FMDQ OTC PLC (trading under the brand name “FMDQ OTC Securities Exchange”), FMDQ Clear has been engaged by FMDQ OTC Securities Exchange to carry out post-trade services for transactions executed on its platform.

FMDQ OTC Securities Exchange is a SEC-registered OTC securities exchange and self-regulatory organisation, with the strategic intent of bringing about revolutionary changes and fostering the development of the Nigerian financial market. FMDQ provides a platform for the registration, listing, quotation, noting, trading, order execution and trade reporting within its markets - fixed income, currency and derivatives. With an average annual market turnover of circa \$560 billion over the last four (4) years, FMDQ operates the largest securities exchange in Nigeria. FMDQ has been a member of ICMA since 2015.

For further information, please visit www.fmdqotc.com

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About Frontclear

Frontclear is a development finance company focused on catalyzing stable and inclusive interbank markets in emerging and developing countries (EMDC). Frontclear facilitates access by local financial institutions to interbank markets through providing credit guarantees to cover a transacting institution’s counterparty credit risk. This on the condition that local currency assets can be used for collateral management purposes. Frontclear’s Basel III compliant guarantees specifically cover due payment of the Early Termination Amount under ISDA contracts and corresponding claims under GMRA. The guarantees are in turn counter-guaranteed by KfW, a AAA-development financial institution. The guarantees are complemented by a technical assistance programme (FTAP). FTAP supports targeted and planned interventions in bank and system development, which reduce the operational and country risks obstructing interbank trading. European Bank for Reconstruction and Development (EBRD), the Dutch development bank FMO, the Financial Sector Deepening Africa (FSDA), the French development bank Proparco, The Currency Exchange Fund (TCX), the UK’s Department of International Development (DFID) and the German Ministry of Development Cooperation (BMZ). Frontclear’s guarantees are counter-guaranteed by KfW, a AAA-rated German development Bank.

For further information, please visit www.frontclear.com

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