



### Introduction

The NSE retail Bond trading platform for FGN Bonds, State and Corporate & AMCON bonds aims to offer retail investors an efficient and transparent access to an on screen secondary market in NSE listed debt instruments. The introduction of this fixed income trading platform is in response to growing demand from retail investors for portfolio diversification from traditional equities.

We believe that the platform will increase the credibility of the Nigerian debt market and allow for improved price efficiency and transparent mechanism for gaining access to fixed income securities.

### Market Participants

**Fixed Income Market Makers (FIMMs):-** are NSE appointed market makers in NSE listed bonds that have obligations and benefits associated with providing liquidity and addressing dislocations in the NSE bond order book.

**Broker-Dealers:** - are NSE members that have been approved to represent their customers (Retail and Institutional Investors) in an agency capacity and/or to trade proprietary positions on behalf of their house.

**DMO Government Broker,** is an NSE registered Broker-Dealer that has been selected by the Debt Management Office to be a liquidity provider of last resort in FGN bonds listed on the NSE.

**AMCON Market Maker,** is an NSE registered Broker-Dealer provider that has been appointed by Asset Management Corporation of Nigeria to be the liquidity provider of last resort on AMCON bonds listed on the NSE.

### Trading Services

The Exchange runs a hybrid market, allowing dealing members to submit orders and market makers to submit two-sided quotes into the order book. The orders and quotes interact electronically to “discover” the price of the bond on a continuous basis. The match algorithm is based on Price, Time priority.

### **FIMMs Bid/Offer Spread**

FIMMs quotes will have maximum spread between the bid and offer prices and minimum volume requirements. Minimum volume will be a multiple of the lot size set for the security.

The maximum spread between the FIMMS bid and offer prices for outright transactions will be decided by market makers in conjunction with NSE.

For example:

Maturity $\leq$ 3 years =	25kobo
Maturity $>$ 3 years $<$ 10 years =	35kobo
Maturity $>$ 10 years =	45kobo

### **Minimum Price Increment**

Orders and Quotes will be in increments of kobo (two decimal places based on Naira denominated debt). e.g. 100.00/100.25 (bid and offers respectively).

### **Order Size**

A minimum tradable lot size will be set for all securities. Orders entered must equal the minimum tradable lot size, or be a multiple thereof.

The trade size should be expressed in terms of  $=N=$  nominal value and not in number of units. The consideration value for a trade is calculated as the nominal value multiplied by the price/100.

For example, a trade of N100,000.00 at a price of N102.50, will have a consideration amount of  $=N=102,500$ . That is  $(100,000 \times N102.50)/100$ .

The minimum tradable lot size will be agreed by the market makers in collaboration with NSE- (parties must be ready to deal each time a quote is given).

### **Order Types**

Market makers will be able to enter executable (firm) quotes. All other market participants will be able to use limit orders and market orders. The market supports both Limit and Market orders.



<b>Order Type</b>	<b>Description</b>
Limit	A limit order is an order to buy or sell securities at a specified price, or better. The trader enters the limit price in the order form before submitting it.
Market	A market order is an order to buy or sell securities at the current best price at the time of submission. The trader types MKT in the price field of the order form to denote a market order and the Trading Engine determines the market price and executes the trade if the contra side can be matched or post the order into the order queue if there is no immediate match.

**Trading Hours 9.30 to 14.30 Trading Schedule**

<b>Market Stage</b>	<b>Time</b>	<b>Description</b>
Pre-Open	9.30 – 10.00	Broker-dealer members may place, change or cancel limit orders individually or globally, and make inquiries on the Automated Trading System (ATS). Market Makers can enter their trading interest as well. No trading occurs during the pre-open session
Opening Auction	10:00	Automatic auction by the ATS to establish the market opening price for each listed security
Continuous Trading	10.00 – 14.30	Trading commences and continues throughout the trading day. Broker-dealer members may place, change, or cancel orders which are automatically matched by ATS
Close	14.30	Trading closes. Broker-dealers print their activity statements for the day.

**Price Band**

There will be no limit up or down on daily price changes

**Price Conventions**

All prices entered for trades must be entered as ‘clean’ prices, i.e., exclusive of accrued interest. Bond prices are quoted on a 'clean' basis. This means that the price showing does not include any accrued interest. When an investor buys a bond however, they pay the bond's 'dirty' price which is the clean price plus the accrued interest.

**Accrued Interest**

As order book trades will be executed on a ‘clean’ basis, ATS will calculate accrued interest for these electronic transactions.

Accrued interest will be applied based on ACTUAL/ACTUAL day count conventions:

$$\text{Accrued interest} = (\text{accrued days} / \text{days in current coupon period}) \times \text{coupon} / 2$$

*(The coupon amount in the above accrued interest formula is divided by 2 because coupon payments on bonds are made semi-annually. The relevant amount when calculating the accrued interest is therefore the amount paid for the six month period in question and not the annual interest rate).*

$$\text{Accrued days} = \text{days between previous coupon payment date and trade settlement date}$$

$$\text{Annual basis} = \text{actual days in coupon period}$$

**Example: Accrued Interest on fixed Interest rate bond**

Nomenclature:	10.5%Mar 2014
ISIN:	NGFG8B2014S0
Coupon dates:	18 March and 18 September
Annual Coupon:	10.5%
Trade Date:	07 May 2012 (T+2 settlements on 09 May2012)
Clean Price:	98.50

$$\begin{aligned} \text{Accrued Interest} &= \frac{52 \text{ (period between 18 Mar 2012 and 09 May 2012)} \times 10.5}{184 \text{ (period between 18 Mar and 18 Sep 2012)} \times 2} \\ &= 1.48 \end{aligned}$$

$$\text{Dirty price} = 99.98 \text{ (clean price + accrued interest)}$$

### **Clearing/Settlement**

All settlement of order book trades will take place within the Clearing Securities Clearing System.

Settlement of order book trades will be instructed automatically by the ATS post-trade router into CSCS. ATS will calculate the accrued interest payable and will instruct settlement in CSCS on behalf of the counterparties.

The standard settlement timetable for fixed income securities will be T+2. All settlement will be enabled for direct cash settlement into client's account.

### **Pre and Post Trade Transparency**

A key benefit of the fixed income trading platform on the NSE is the provision of pre and post trade transparency. The bid-ask information and last trade information from the ATS will be published to the NSE website, market data vendor terminals and available as part of the NSE real time data feeds.