FIXED INCOME TRADING AND SETTLEMENT PROCESS FLOWS

July 2020
Outline

1. NSE Fixed Income Market
2. Trade Execution on the NSE
3. Clearing and Settlement Process
4. NSE Indicative Bond Pricing Framework
**NSE Fixed Income Market**

- The Nigerian Stock Exchange ("The Exchange" or "NSE") Fixed Income market provides access to both retail and institutional investors to trade fixed income instruments listed by the Federal Government, States, Corporates and Supranational issuers on its platform. It adopts an integrated straight-through trading and settlement process using best in class market infrastructure without trade failures.

- It provides access to one of the most liquid, transparent and efficient bond markets in Sub-Saharan Africa through our vast network of Dealers and integrated trading platform.

- Fixed Income trades can be executed on the NSE through the Central Order Book or Cross Deal Window. Investors can send their buy or sell mandates through our Dealing Member Firms (Brokers). Institutional investors can also pre-agree trades with Brokers or Dealers to be executed on the Exchange.

- In a bid to further enhance price discovery, the Exchange recently launched the Indicative Bond Pricing Framework to address the liquidity and price discovery issues on fixed income by aggregating the prices of fixed income securities from traders across the market.
**NSE Fixed Income Market Structure**

Continuous Trading
10:00 a.m. - 2:30 p.m.

Traders and Market Makers can enter orders/quotes

Close
2:30 p.m.

Market Closes

Reference Price = Previous Close

Closing Price = last trade price

All auction periods have been removed and the Fixed Income market opens at 10am and trades until close of the market at 2.30pm

The Nigerian Stock Exchange
NSE Fixed Income Market Structure

Price Band
No limit up or down on daily price changes

Price Conventions
- Trade Clean Price, i.e. exclusive of accrued interest but settle dirty.
- Accrued Interest is based on ACTUAL/ACTUAL day count conventions

Market Model
- Hybrid Market i.e. Quote and Order Driven
- Trades in COB are matched on Price and Time Priority

Trading and Settlements
T+2

Securities Board
- Debt Board
- All Bonds including FGN, Corporates, Supranational, Green, Sukuk and Savings Bond

Index Circuit Breaker
Index Circuit Breaker Rule is not applicable and will not affect the Debt Board
Trade Execution on the Exchange
Trade Execution on the Exchange

Central Order Book

Cross Deal Window
Trade Execution on the Central Order Book

Broker A wants to buy a debt security.

Broker B wants to sell a debt security.

Both Brokers input the desired quantity and buy or sell using either price or yield function.

The buy and sell order forms go into the central order book and the trading engine matches the trades on price and time basis.

CSCS clears and settles the trades.

NSE X-Stream Platform
Trade Execution via the Cross Deal Window

Broker A
Broker A has buy and sell mandates from investors under his account

NSE
Broker A logs into his account on the trading engine, click on the cross-deal option and populate the form with the necessary information.

CSCS
CSCS clears and settles the trades.
Clearing & Settlement Process
1. Intra-position transfers: *Counter parties are clients with CSCS Accounts*

2. Inter-position transfers: *One of the parties has a CSCS Account*

   (a) Transfer (Receiving) from S4 participant *(Dealer)* to CSCS clients *(Stock Broking Firms (SBF) & Bondholders)*
      - Auction/Re-opening
      - Transfer from Dealers to CSCS clients on DvF

   (b) Transfer (Delivery) from CSCS Clients to Dealers on DvF
Scenario 1: Intra-position Transfers

1. Stock Broking Firm (SBF)
2. Nigerian Stock Exchange
3. CSCS
4. Register Update on S4
5. NIBSS
6. Settlement Banks
7. Cash Payment
8. Securities Settlement
**Scenario 2:**

**Transfer From Dealer On S4 To CSCS Clients**

- **Dealer on S4**
  - Dealer initiates DvF Delivery Order on S4
  - S4

- **Stock Broking Firm (SBF)**
  - SBF instructs CSCS to Receive Order on S4
  - CSCS Pairs Order (Receive) on S4
  - Online portal

- **CSCS**
  - CSCS Pairs Order (Receive) on S4
  - SBF/Investor’s account is credited with Bond

- **CSCS Clients account Credited**
  - Yes
  - No

**Details of account to be credited with bonds, Counter party, Quantity, Bond details, Settlement date**

**Bonds Available**
Scenario 3:
Transfer From CSCS Clients To Dealer on S4

1. Dealer on S4
   - Dealer Pairs Orders (Receive) on S4

2. S4
   - CSCS initiates DvF
     - CSCS Clients account Debited
     - SBF/Investor’s account is Debited with Bond

3. Yes
   - SBF/Investor’s account is Debited with Bond

4. No
   - Bonds not Available

5. Online portal
   - SBF initiates CSCS to Deliver Order to Counter party on S4
     - (Details of account to be debited with bonds, Counter party, Quantity, Bond details, Settlement date)
## Settlement Process

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<th>Day T</th>
<th>Day T +1</th>
<th>Day T + 2</th>
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| - Trading occurs at the Exchange  
- Market Participants (MP) are notified of their Financial Net Obligations, including charges (3.30p.m)  
- Settlement Banks (SB) are notified of Market Participants Financial Net Obligations. *(Marked “for your information only”)* | - SB notifies NSE & CSCS of Market Participants that may not settle trades of Day T by 12 noon.  
- CSCS transmits the final Financial Net Obligations of Market Participants to Settlement Banks & NIBSS by 3.00p.m & 5.00p.m respectively. | - NIBSS applies the settlement advise by 8.00 a.m against the SB Central Bank account  
- SB equally credits or debits her members on the same day (latest by 12 noon).  
- MP are expected to pay their clients on the same day. |
NSE Indicative Bond Pricing Framework
As part of our liquidity enhancing and market deepening efforts, the Nigerian Stock Exchange launched the Indicative Pricing Framework on February 3, 2020 to address the liquidity and price discovery issues on fixed income by aggregating the prices and yields of fixed income securities from traders across the market.

The Exchange welcomes quotes from traders across the market. The process flow details the steps for contributing quotes on the Exchange.

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**NSE Indicative Bond Pricing Framework**

- **Start**
  - NSE circulates the individual Bond Price sheets to Contributing Firms to submit prices and/or yield on Fixed Income Securities
  - Contributing Firms submit indicative bid and offer prices and/or yields by 10:30AM & 1:30PM using the provided Bond Sheet
- **End**
  - NSE applies the trimmed mean methodology to the contributed prices and yields
  - Trades are then entered on the NSE trading engine either directly COB or via Negotiated Deal Window
  - NSE shares the indicative prices and yield with Contributors via e-mail and publish on the Trading Engine
  - Interested in executing trades using the prices

- **Yes**
- **No**
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• For more information on trading Fixed Income on the Exchange, please contact aokeniyi@nse.com.ng copying secondarymarket@nse.com.ng

• For more information on the settlement of the Fixed Income trades, please contact ootenaike@cscs.ng copying contact@cscs.ng