



# *Debt Capital Markets Development Project*

*Investment Options in the Nigerian Debt Markets –  
Treasury Bills & Commercial Papers*

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**November 30, 2022**

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# *Outline*

**2 Overview of Debt Markets Products**

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**3 Investment Options**

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**5 Key Stakeholders**

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**6 Market Trend Analyses**

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**7 Investment Benefits**

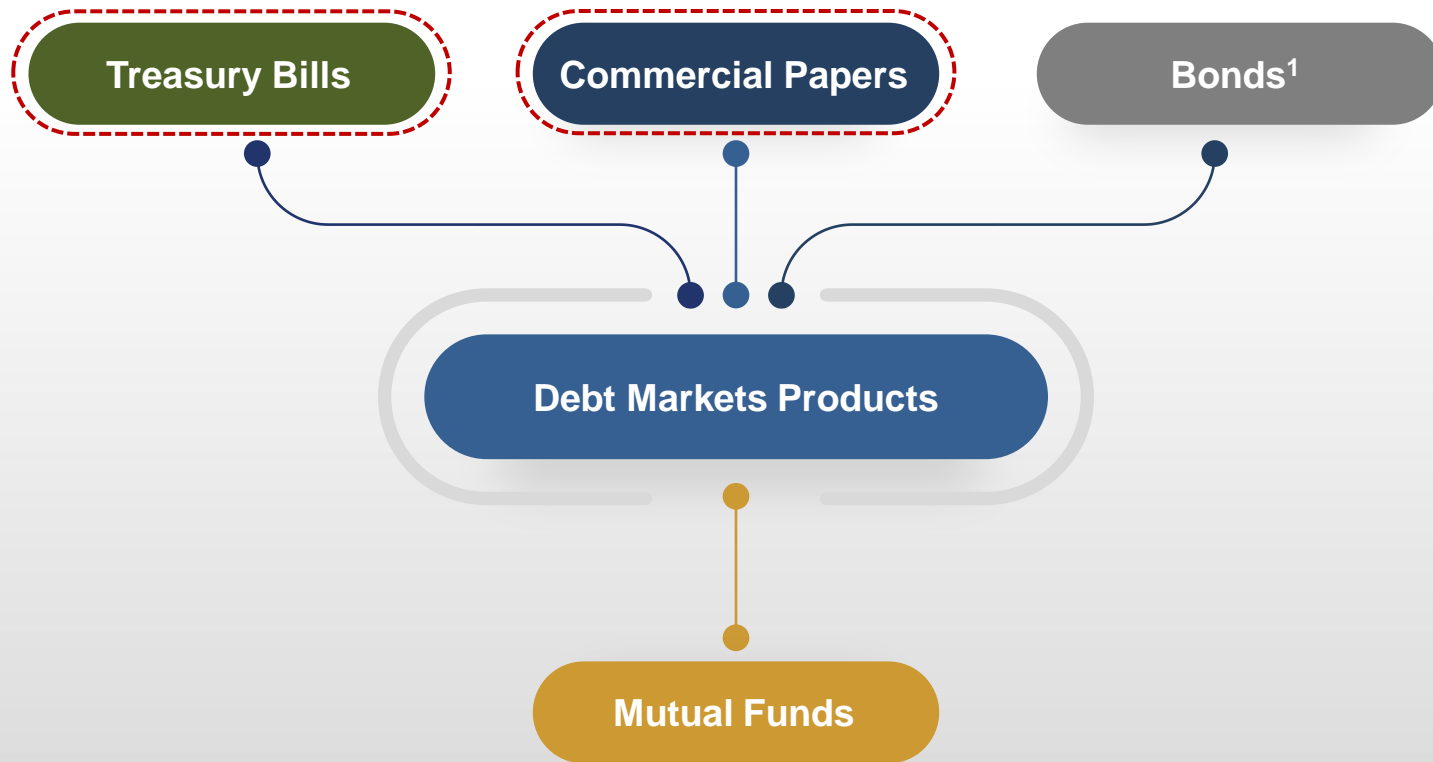
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**8 Inherent Product Risks**

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# Overview of Debt Markets Products

The Nigerian debt markets provide a bouquet of investment product options for market participants, both institutional and retail investors. These products have different tenors, minimum investment limits, coupon payment periods, amongst other distinguishing features.



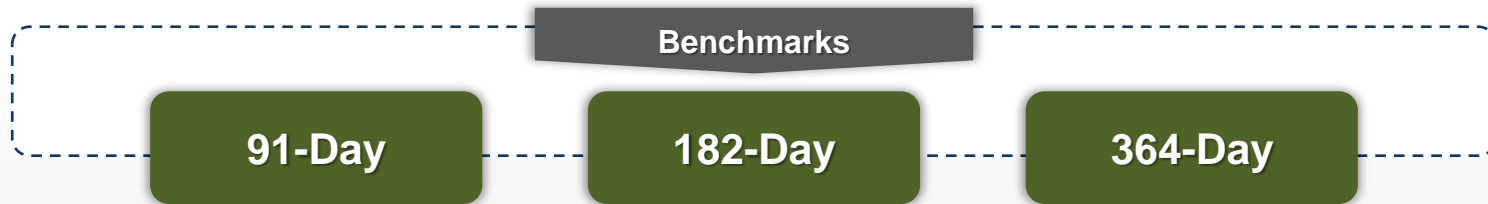
**Note**  
1 – Conventional and Unconventional Bonds

# Investment Options

## Treasury Bills



Treasury Bills are **short-term discount securities** issued by the **central government or Sovereign** of a country, and typically issued to finance short-term budget deficit. Also referred to as **zero-coupon instruments** as they are issued at a discount and not contracted to make interest payments. No interest is paid on the maturity date. Interest (discount amount) is implicitly the difference between the face value and the purchase price of the Treasury Bill.



### Features of NTBs<sup>1</sup>



### Investors Category



**Note**  
1 – The Nigerian Treasury Bills  
2 – Debt Management Office, Nigeria  
3 – Federal Government of Nigeria

# Investment Options../2

## Commercial Papers



Commercial Papers (CPs) are unsecured short-term interest bearing or discounted money market instruments, issued in the form of promissory notes by corporates to fund working capital requirements. An Issuer promises to pay buyer (investor) a fixed amount at a future date, but pledges no asset, only his liquidity and established earning power to make payment at maturity.



Investors Category

### Qualified Institutional Investors

QIIs include, but are not limited to, banks, fund managers, PFAs, insurance companies, corporates, registered private equity funds, and any other category of investors as may be determined by the SEC from time to time.

1

### Eligible Investors

EIs are investors that are not QIIs but have executed a declaration attesting to his/her/its eligibility in the manner prescribed in the FMDQ Commercial Paper Registration and Quotation Rules.

2

**Please note that Guaranteed CPs may be sold to all investors (QIIs, EIs and any other investor) while Clean CPs shall only be sold to QIIs and EIs upon the execution of a declaration attesting to the investor's awareness of the risks involved in investing in the clean CPs.**


# Key Stakeholders

Stakeholder	Treasury Bills	Commercial Papers
<b>Financial Markets Infrastructures</b>		
Securities Exchange	✓	✓
Depository	✓	✓
<b>Capital Market Operators</b>		
Financial Advisors/Issuing Houses		✓
Reporting Accountants		✓
Rating Agencies		✓
Solicitors		✓
Custodians	✓	✓
Issuing and Placing Agents		✓
Issuing Calculation & Paying Agents (ICPA)		✓
Dealing Members		✓
Money Market Dealers (MMDs)/Primary Dealers (PDs)/Underwriters (where applicable)	✓	✓
<b>Market Participants</b>		
Issuers	✓	✓
Investors	✓	✓


**Legend**

Not Applicable


**Regulatory Oversight**



**DEBT MANAGEMENT OFFICE  
NIGERIA**



**CENTRAL BANK OF NIGERIA**



# Market Trend Analyses

## Activities & Statistics



Key activities in the T.bill and CP markets are highlighted as follows:

### 1960 – 2000

- First 91-Day T.bill issued (1960)
- CBN Circular to All Banks, Discount Houses and their External Auditors on Concept, Use & Treatment of BAs & CPs (1997)

### 2001 – 2010

- 182-Day & 364-Day benchmarks launched (2004 - 05)
- Synchronisation of all T.bill benchmarks, and implementation on T24 trade settlement system (2007)
- Debut of 2-WQ Dealing in T.bills secondary market (2007)
- CBN, Revised Guidelines on issuance of CPs (2009)

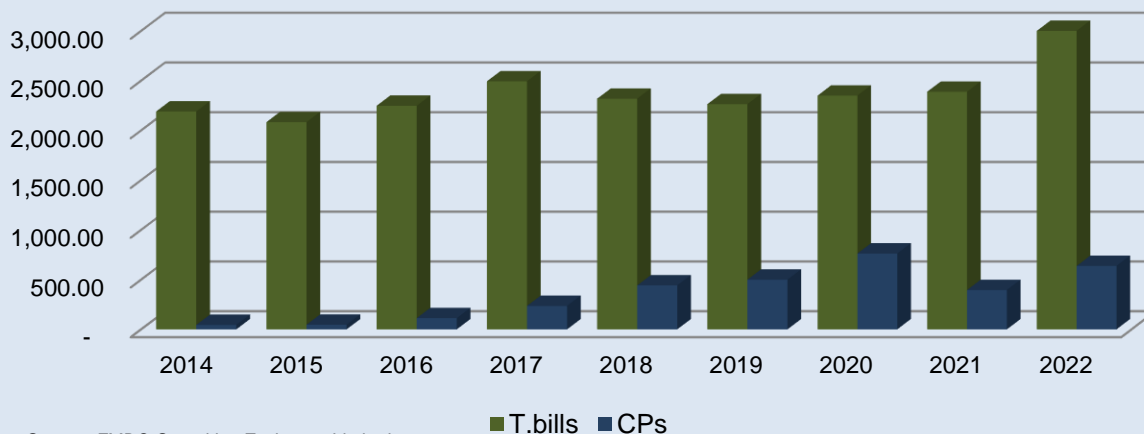
### 2011 – 2015

- First issuance in the revised CP market by Stanbic IBTC Bank PLC (2012)
- Dawn of a new era- Re-birth of the CP market: "Transparent CP market" (2014)
- FMDQ released CP Quotation Rules & Process backed by CBN's 'No Objection' (2014)
- First CP Programme registered on FMDQ Platform by Stanbic IBTC Bank PLC (2014)

### 2016 – 2020

- Scripless Securities Settlement System (S4) launched (2017)
- CBN Letter to banks on mandatory registration & quotation of CPs (2016)
- FMDQ released CP Registration & Quotation Rules (2016)
- FMDQ released Revision of CP Registration & Quotation Rules, And infractions & Penalties Guide (2020)

### Issuances in the T.bill and CP Markets (2014 – October 2022)



Source: FMDQ Securities Exchange Limited

### Commentary

- Annual CP issuances increased from three (3) in 2014 to hundred (100) as at October 2022
- Average CP issuance discount rate over the review period ranged between 5.98% - 18.18%, compared to T.bill market ranging from 1.62% - 17.93% across the three (3) benchmarks
- The CP market has shown tremendous increase (circa 13x) over the review period owing to the improvement and transparency in the market segment

#### Note

CBN – Central Bank of Nigeria; BAs – Bankers' Acceptances; 2-WQ – Two-Way Quote

# Investment Benefits

Respective products' benefits from investment perspective are highlighted as follows:



## T.bills

- Short maturity profile
- Negotiable; as such may:
  - Assist with liquidity need(s)
  - Present an opportunity to enhance returns
- Deemed risk-free
- Upfront income (Discount Amount) Exempt from withholding tax (WHT) charge
- Usually offer lowest yields to investors owing to its risk-free feature and credit worthiness of Issuer
- Usually highly liquid
- Eligible securities for repurchase contracts (Repurchase Agreements)



## CPs

- Short maturity profile
- Negotiable; as such may:
  - Assist with liquidity need(s)
  - Present an opportunity to enhance returns
- High quality risk investment. May further offer some level of comfort in terms of risk minimisation where CP invested in is guaranteed
- Upfront income (Discount Amount). Exempt from withholding tax (WHT) charge
- Can be used as collateral



# Inherent Products Risks



## T.bills

- Though deemed risk-free, the Federal Government may default on obligation at redemption. (This is rare, but not impossible). Government will simply rollover by issuing fresh securities, etc.
- Investor may not meet the par investment target where security cannot be held till maturity, in the event that, comparable market yield has trended higher. As such invested amount (capital may not be protected)



## CPs

- The issue of default may arise
- CP market tends to be illiquid as such secondary market activities can be very limited. Investors typically operate on hold-to-maturity (HTM) basis
- Investor may not achieve the original face value where CP cannot be held till maturity, in the event that, comparable market yield has trended higher. As such the invested amount (capital may be eroded)



*Thank you  
for your attention!*

