EXPOSURE DRAFT

CENTRAL BANK OF NIGERIA

GUIDELINES ON SECURITIES SETTLEMENT IN NIGERIA

Version 3
JUNE 2012
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Preamble

In exercise of the powers conferred on the Bank by Section 47 (2) of the Central Bank of Nigeria Act 2007 to promote and facilitate the development of efficient and effective systems for the settlement of transactions; and

Pursuant to its powers, the Central Bank of Nigeria (CBN) hereby issue the following guidelines for the settlement of all types of securities in Nigeria without prejudice to the powers of Securities & Exchange Commission (SEC) conferred on it by section 13 of the Investments and Securities Act 2007.

1.1 Scope of the Guidelines

The guidelines set out the procedures for the settlement of securities in Nigeria, including the rights and obligations of the parties. It also covers the settlement procedures and settlement cycle for:

i. The Nigerian Stock Exchange traded securities.
ii. Over The Counter (OTC) Securities.
iii. Government Securities (T/bills, bonds, etc).
iv. Commodity Exchange traded securities.
v. Dividend and interest payments.

1.2 Parties to Securities Settlement in Nigeria

Parties to Securities Settlement in Nigeria shall include but not limited to:

2. Stockbrokers.
3. Deposit Money Banks (DMBs).
6. Nigeria Inter-Bank Settlement System PLC.
7. Payment Service Providers.
8. Investors.
10. Such Other Financial Institutions (OFIs) as may be prescribed by the CBN from time to time.
2.0 Securities Settlement Rules and Procedures

2.1 The NSE traded Securities (Equities & Corporate Bonds)

2.1.1 After each day’s transaction (Day T), the CSCS or the clearing/settlement agent shall generate the financial obligations of each stock broking firms.

2.1.2 The CSCS shall sort the financial positions of the stock broking firms based on their respective settlement banks to arrive at net position per bank.

2.1.3 The CSCS shall alert both the settlement banks and the stock broking firms of their day T net positions.

2.1.4 On Day T+2, The CSCS shall send final advice to both the settlement banks and the stock broking firms of their day T net positions for settlement on Day T+3.

2.1.5 On Day T+3, the CSCS shall forward the net settlement positions of all the settlement banks through a settlement agent (where CSCS has no direct access to the CBN Settlement System).

2.1.6 Where the CSCS has direct access to the CBN Settlement System, on Day T+3, the CSCS shall transmit the net settlement positions of all the banks to the CBN Settlement System at the same time when the stock records are updated so as to achieve simultaneous DVP.

2.1.7 On Day T+3, the settlement banks shall update the accounts of their respective stock brokers with the value received from CSCS.

2.1.8 On Day T+3, the stock broking firm shall update the stock broking accounts of their respective investors/customers with the proceeds from the trade less charges/commission.

2.1.9 The stock broking firm shall credit the customer account not later than the next working day.

2.2 The NSE traded Securities (National & Sub-National Bonds)

2.2.1 After each Day’s transaction (Day T), the CSCS or the clearing/settlement agent shall generate the financial obligations of each Dealer/investor.

2.2.2 The CSCS shall determine net financial obligations of each dealer/investor.

2.2.3 The CSCS shall alert the Dealer of their day T net positions.

2.2.4 On Day T+2, The CSCS shall send final advice to the CBN for settlement.

2.2.5 On Day T+2, the CBN and other bond registrars shall update the portfolio holdings of bond holders and their account balances accordingly.

2.2.6 The dealer shall credit customer account not later than the next working day.
2.3 Government Securities: Primary Auction (Bond)

2.3.1 After the release of auction result, the CBN shall notify the financial obligations of each successful Bidder (dealer).
2.3.2 The successful Bidder shall fund its account with the CBN for settlement on or before T+2.
2.3.3 The CBN shall debit the account of successful Bidder on T+2.
2.3.4 Where the account of successful Bidder is not funded on T+2, the CBN reserves the right to cancel the trade.
2.3.5 CBN shall advise CSCS electronically on the successful Bidders.

2.4 Government Securities: Primary Auction (NTB)

2.4.1 After the release of auction result, the CBN shall notify the financial obligations of each successful bidder (dealer).
2.4.2 The successful Bidder shall fund its account with the CBN for settlement on or before T+1.
2.4.3 The CBN shall debit the account of successful Bidder on T+1
2.4.4 Where the account of successful bidder is not funded on T+1, the CBN reserves the right to cancel the trade.
2.4.5 CBN shall advise CSCS electronically on successful bidders.

2.5 ASCE Spot Market Trade for Low Volume (below 1000 tones)

2.5.1 The ASCE shall notify the financial obligations of the trading members for deals on the Exchange.
2.5.2 The transacting parties shall give delivery notice and account funding notice on T+5.
2.5.3 The delivery of goods shall be made on T+8.
2.5.4 80% of the contract value shall be paid on delivery of the goods while the 20% shall be paid on confirmation of quality of the commodity on (T+10).
2.5.5 If there is neither confirmation of quality and quantity, nor lodging of complaints on or before the 10th working day after deal, the Exchange reserves the right to settle the deal.
2.5.6 On day T+10, the ASCE shall forward the net settlement positions of all the transacting parties to NIBSS in the morning for onward transmission to the CBN RTGS where the accounts of their bankers would be updated accordingly.
2.5.7 Where the ASCE has direct access to the CBN RTGS System, on day T+10, the ASCE shall transmit the net settlement positions of all the transacting parties to the CBN RTGS System, before the first clearing session.
2.5.8 On day T+10, the banks shall update the accounts of their respective customers with the value received from ASCE.

2.6 ASCE Spot Market Trade for High Volume (1000 tones & above)

2.6.1 The ASCE shall generate the financial obligations of the trading members for deals on the Exchange.
2.6.2 The transacting parties shall give delivery notice and account funding notice on T+5.
2.6.3 The delivery of goods shall be made on T+19.
2.6.4 Payment shall be made on T+20.
2.6.5 On day T+20, the ASCE shall forwards the net settlement positions of all the transacting parties to NIBSS in the morning for onward transmission to the CBN RTGS where the accounts of their bankers would be updated accordingly.
2.6.6 Where the ASCE has direct access to the CBN RTGS System, on day T+20, the ASCE shall transmit the net settlement positions of all the transacting parties to the CBN RTGS System.
2.6.7 On day T+20, the banks shall update the accounts of their respective customers with the value received from ASCE.

2.7 Broker to Investor Payments

2.7.1 A Customer should be given options of receiving their proceeds from sale of their securities directly into their bank account or deposit into their stock broking account or cheque payments.
2.7.2 Payments shall reach the beneficiary’s account not later than the next working day after settlement.

2.8 Investor to Broker Payments

2.8.1 The Investor shall have options for making payment to his broker through the use of payment instruments in Nigeria such as cheque, cards and other payment modes excluding cash.

2.9 Dividend and Interest Payment

2.9.1 Quoted company shall make funds available to the Registrar not later than seven working days after the Annual General Meeting where the dividend was declared.
2.9.2 Registrars shall obtain account details of investors for the purpose of electronic payment of dividend and interest.
2.9.3 The Registrars shall pay dividend to investors electronically on due date and advise the investors through any credit advice.
2.9.4 Banks shall credit the account of investors not later than T+1 from the date of receipt of mandate and funds from the Registrars.

2.9.5 Where the banks can not apply funds into some investors account, the funds and a schedule containing the list of the affected investors shall be returned to the Registrar on or before T+2 with reasons for the reject.

2.9.6 The Registrar shall contact the affected investors within two working days to correct or supply the required information and copy SEC.

2.9.7 Upon receipt of the required information, the Registrar shall re-send the funds and the payment details to the banks within two working days.

3.0 Rights and Responsibilities of the Parties

(A) Registrars

The Registrar shall have the following responsibilities:

i. Select the DMB or service provider for electronic payments.

ii. Provide the basic infrastructure requirements for electronic payments.

iii. Define and adhere to appropriate operational processes for initiating electronic payments.

iv. Obtain correct details of investors and validate them.

(B) Investors

An Investor has the following responsibilities:

i. Maintain an account with a DMB.

ii. Confirm and provide proper details of the account to the Registrar and Stockbrokers.

iii. Alert the Registrar or Stockbroker if payment is not effected after being advised.

(C) Banks

Banks have the following responsibilities:

i. To process electronic payments instructions in accordance with the terms defined by the payments system.

ii. To provide correct account numbers and bank sort codes to beneficiaries.

iii. To provide timely information on customer enquiries.

(D) Payment Service Providers

The Payment Service Providers have responsibility for the payment initiation platform and the electronic reporting system used by the Registrars and Stockbrokers. Their responsibilities include:

i. Provision of a secure electronic platform for payment initiation and online transaction reporting.
ii. Implementation and support of the electronic payment platform.

iii. Validation of received payment instructions to ensure that transactions are from the purported originator and have not been manipulated.

iv. Processing of received instructions and onward transmission to the banks for Registrars and Stockbrokers using appropriate ACH Infrastructure with capabilities for bulk processing.

v. The capability to generate and send Credit Advice to funds beneficiary via email and/or SMS when payments are made provided the Registrars and Stockbrokers pays for the service.

(E) Payment Infrastructure Service Providers

The Payment Infrastructure Service providers include all organizations that provide switching and settlement services for electronic payments. Their responsibilities include:

i. Provision of electronic payments and clearing services in accordance with the Nigeria Bankers Clearing House Rules and other appropriate guidelines issued by the CBN.

(F) Central Bank Of Nigeria

The Bank shall have the following responsibilities:

i. Provide oversight functions on electronic payments.

ii. Ensure adequate laws are put in place to safeguard the interest of all parties.

iii. Apply appropriate sanctions in the event of default.

iv. Review and amend the Guidelines in conjunction with SEC from time to time.

4.0 TARIFF/CHARGES

i. Payment by the Registrars and Stockbrokers: Charges for transactions should be agreed between the Registrars/Stockbrokers their DMBs, and Service Providers and included in their SLA.

Payment to Investors: There shall be no charges to investors on e-payment of dividend/interest.

5.0 DISPUTE RESOLUTIONS

Dispute Resolution mechanism in respect of securities settlement shall be governed by the relevant rules issued by CBN, SEC, The NSE and IST

6.0 SANCTIONS
Regulatory bodies to review and apply appropriate sanctions in the event of default and/or infractions.

7.0 IMPORTANT NOTE

This Guidelines is subject to periodic review.

8.0 GLOSSARY OF TERMS

Settlement Agent: This refers to a body corporate responsible for processing/determining net positions of institutions arising from a trading/clearing session and or further processing the settlements into the account of affected intuitions.

List of Abbreviations

ACH: Automated Clearing House
ASCE: Abuja Stock and Commodity Exchange
CBN: Central Bank of Nigeria
CBN RTGS: Central Bank of Nigeria Real-Time Gross Settlement System
CDF: Certificate Deposit Form
CHN: Clearing House Number
CSCS: Central Securities Clearing System
Day T: Transaction Day
DMBs: Deposit Money Banks
DVP; Delivery versus Payment
FGN: Federal Government of Nigeria
FMBN: Federal Mortgage Bank of Nigeria
IST: Investment & Securities Tribunal
MMD: Money Market Dealers
NIBSS; Nigeria Inter-Bank Settlement System
NTB: Nigeria Treasury Bills
NSE: The Nigeria Stock Exchange
OBB: Open Buy Back
OTC: Over-The-Counter
PDMMs: Primary Dealers and Market Makers
Repo: Repurchase
SEC: Securities Exchange Commission
WDAS: Wholesale Dutch Auction System
Dear Sirs,

The details of my/our bank account are as follows:-

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<th>Bank:</th>
</tr>
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<tr>
<td>Address of Bank Branch:</td>
</tr>
<tr>
<td>Account Name:</td>
</tr>
<tr>
<td>Account Number:</td>
</tr>
<tr>
<td>Sort Code:</td>
</tr>
<tr>
<td>Phone Number</td>
</tr>
<tr>
<td>Email Address</td>
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</tbody>
</table>

Signed at __________ on this __________ day of __________ 20 __________

[NAME OF INVESTOR]

In the presence of:

Name:________________________________________

Address:_____________________________________

Occupation:___________________________________

Signature:___________________________________
Appendix II: Over The Counter (OTC) trade settlement: Secondary Market (Bonds)

Note: Bond schedules are to be submitted to CSCS in duplicate copies on the letter-headed paper and duly signed by two (2) authorized signatories.

8.1.1 All bond transactions of T + 2 to be submitted on trade Date or as stipulated by CSCS on T + 1.
8.1.2 Any bond transactions of T + 1 as stipulated by CSCS on trade date.
8.1.3 T + 0 transactions to be submitted on Day T as stipulated by CSCS
8.1.4 Sellers and buyers advice are required by CSCS for all transactions. (It is the responsibility of the authorized dealers to ensure that all figures and information stated in the transaction schedules are accurate)
8.1.5 Dealers/PDMM’s to state the particular account number the bond should be traded from and deposited into.
8.1.6 CSCS will notify any of the parties of errors on bond schedule for amendment and all corrections must be submitted to CSCS thirty (30) minutes after notification.
8.1.7 CSCS to advice CBN of the net bond and cash positions of the traders as stipulated by CSCS.
8.1.8 Dealers are to collect their bond statement and daily net activities/positions on each settlement day as stipulated by CSCS or as stated on CSCS website (www.cscsnigeria.com).

Appendix III: Over The Counter (OTC) trade settlement: Secondary Market (NTB)

Note: Bond schedules are to be submitted to CSCS in duplicate copies on the letter –headed paper and duly signed by two (2) authorized signatories.

8.1.9 All NTB transactions of T + 2 to be submitted to CSCS on trade date or as stipulated by CSCS
8.1.10 Sellers and buyers advice are required by CSCS in all transactions (it is the responsibility of the MMD’s to ensure that all figures and information stated on the transaction schedules are accurate).

8.1.11 CSCS will notify any of the parties of **errors on NTB schedules** for amendment and all corrections to be submitted to CSCS latest by thirty (30) minutes after notification.

8.1.12 CSCS to advise CBN on Net NTB and cash points of the MMD’s by 9.00am on the settlement day.

8.1.13 MMD’s are to collect their NTB reports on each settlement day latest by 9.00am

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**Appendix IV: The Nigeria Stock Exchange Traded Securities**

**Transaction process in CSCS System**

There are two major ways through which an investor can have his shares transacted in the CSCS System, these are:

(a) **Through deposition of an investor’s existing share certificate**

An investor who had not been in the cscs System can become part of the system by lodging into the CSCS his/her existing share certificate in his possession.

He takes the certificates to his/her stockbroking firm where he/she is given a Transfer Form to be completed in the presence of the stockbroker including the submission of other necessary documentations needed at the stockbroking firm.

The stockbroker takes the certificate plus completed CSCS Certificate Deposit Form (CDF) having the stockbroking firm’s Member Code and Name with other relevant documents to the Registrar’s office for processing. Thereafter, the verified certificate are sent to the cscs office by the registrars for onward processing.

At the cscs, a Clearing House Number (CHN) i.e CSCS No. is assigned to the investor with which an investor’s stock account number is automatically generated for the shareholder under the custody of the stockbroking firm in the CSCS System. The shareholder’s full personal details are posted into the System including the entry of all the particulars of the shares lodged in his favour which are credited into his stock account under the stockbroking firms. The stocks will remain in custody of CSCS System under the shareholder’s stockbroking firm (except those in Special Account) until the former mandates the latter to transact on them on his/her behalf, in which case, the shares are transacted on Day T and settlement takes on T+ 3 latest 8 A.M.
(b) Shares purchased through secondary market

The second method involves an investor who intends coming into the CSCS System to buy shares through the secondary market without lodging any share certificate at the entry point into the CSCS. He does this, by approaching any stockbroking firm of his choice that is registered as a member of The Nigerian Stock Exchange, he is expected to be given relevant documents to fill including CSCS shareholders particulars form (Form CSCS-R005). This Form is submitted to the cscs office with a covering letter by the stockbroking firm. With this form, a Clearing House Number is assigned to the prospective investor and with this also, an account number is generated under the stockbroking firm.

An investor is expected to have only one CSCS number irrespective of the number of stockbroking firms he uses while he maintains an account number with each of the stockbroking firms he uses.

In order to acquire the shares, he is expected to mandate the stockbroking firm to procure specified volume of shares in his behalf by paying the prevailing market price and commission on the share to the firm and obtain their receipt as evidence of payment. An accredited dealer of the stockbroking firm goes to the floor of the Nigerian Stock Exchange to buy the shares on behalf of the investor and credits the stock account of the new buyer under the stockbroking firm in CSCS System with the shares. The stock settles in the shareholder’s stock account in the system within T+3 days i.e. four working days of purchasing the shares. The settlement date i.e. the fourth day of the transaction is the date recognized by the registrars as having acquired the shares, which is the date recorded in their register for the new buyer.

The investor is expected to fill a transferee transfer form through which details like transferee’s name, address and signature are supplied. This information is required by the registrar for the purposes of subsequent certificate verification in case of bonus and/or right issues. The name and address on the transfer form are entered into the CSCS database.

The completed transfer form is handed over to the dealing member firm for further processing.

An investor is expected to fill a transferee Transfer Form at least once for each security invested in.

The investor is expected to obtain his Contract Note from the stockbroking firm after the purchase.

Stock Settlement
At Day T + 3, latest 8A.M. the stock settlement is processed, and every week the Registrars are advised, inorder to update their records.

**Cash Settlement**

After each day’s transaction (Day T), the CSCS generates the financial obligations of each Stockbroking firm and in relation to their respective Settlement banks. These transactions are netted on Bank basis, showing the respective Banks net financial obligations as well. This Day T advice is called an Alert, but on Day T + 2, the final advice is sent to them which will be used to update the various Stockbroking firms account.

On Day T + 3, latest 8 A.M., NIBBS an agent of CBN is advised to enable it move funds amongst the Banks based on their financial obligations and this will happen lastes 9A.M. This process ensures Delivery Versus Payment

**DELIVERY VERSUS PAYMENT**

NSE TRADING ENGINE \[\text{T+0}\] \rightarrow CSCS CLEARING & SETTLEMENT ENGINE

\[\text{T+0}\]

\[\text{T+3}\]

INVENTORY SUFFICIENT TO EXECUTE TRADE, & NO OWNERSHIP RESTRICTION, EG PLEDE, LIEN E.T.C

\[\text{T+0}\]

YES \[\text{TRADE ACCEPTED}\]

\[\text{T+2}\]

ALERT ADVICE TO BANKS ON FINANCIAL OBLIGATION

\[\text{T+3}\]

FINAL ADVICE TO BANKS

\[\text{T+3}\]

DELIERY OF SOLD SECURITIES EFFECTED AT 8 A.M. TO BENEFICIAL OWNERS

\[\text{T+3}\]

NIBBS ADVICE AT 8 A.M. SETTLEMENT EFFECTED

TRADE REJECTED

NO

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OVER-THE-COUNTER (OTC) TRADES IN FGN BONDS/TREASURY BILLS

FGN BONDS:

CSCS Ltd is the Depository and the Clearing agent of the FGN Bonds traded through OTC. It is assumed that all the Federal Government of Nigeria (FGN) Bonds are book entries and that all the Primary Dealers/Market Makers (PDMMs) have opened accounts with the FGN Bond Depository, CSCS Ltd and CBN acting as the Registrar and Settlement bank.

DEMATERIALIZATION OF BOND CERTIFICATES

PDMM/INVESTOR/STOCKBROKER

- The Bondholder/investor/contractor contacts a Primary Dealer (PDMM) or a Stockbroking firm of his choice.
- The PDMM/Stockbroking firm endorses the Bond documents and forward to CBN for verification.

CBN

- CBN verifies the authenticity of the Bond certificate and the true ownership.
- CBN sends verified Bond certificates to CSCS for dematerialization

CSCS

- The Bond Certificate is dematerialized
- The investor account is created under the umbrella of the PDMM/Stockbroking firm as a sub-account; otherwise the Bond Certificate is lodged into CSCS Bond Special account (BOND1).
Note:

If the Bond transaction is OTC driven, the bond is lodged under a specified PDMM, but if it is ATS based, the lodgement is done under a stockbroking firm.

In addition to the FGN Bonds, a special bond titled First Federal Mortgage Bank of Nigeria (FMBN) Bonds and Mortgage Backed Bonds Series 1, maturing 2012 and Kebbi State Bond are newly introduced into the system for onward Clearing and Settlement by CSCS.

SETTLEMENT PROCEDURE:

(a) All bond schedules must be submitted to CSCS on trade date or latest by 10.00 a.m. of T + 1. Same applies to T+2 and T+3 transactions.

(b) All bond transactions of T+0 must be submitted to CSCS on the settlement date by 9.00 a.m.

(c) Sellers and Buyers advice are required by CSCS on transactions that will be settled through the following means:
   a. RTGS/NIBBS
   b. Cash settled/In House
   c. Repo Deals
   Note that Buyers advice is optional

(d) Consequently, it is the responsibilities of the seller to ensure that all figures/information stated on the transaction schedules are accurate.

(e) It is compulsory for the sellers and buyers to submit their bond schedules to CSCS for transactions that will involve fund transfer through CBN.

(f) CSCS will notify only the seller of errors on bond schedules for amendment before 9.00 a.m. on the settlement date and the corrected schedules must get to CSCS by 10.00 a.m. of the same day.

(g) Two (2) separate bond schedules are to be submitted to CSCS. One would contain transactions to be settled through CBN as in (e) above, and the other would contain details of transactions to be settled through other mode of settlement as in (c) above.

(h) CSCS would charge N10.00k per transaction from each party with effect from March 01, 2007 during this interim measure in addition to #1 per million.

(i) All bond schedules are to be submitted to CSCS in duplicate copies on the letter-headed paper and duly signed by two (2) authorized signatories thereby requiring no covering letters.
(j) PD/MMs are to call CSCS on the settlement day between 3.00p.m and 4.30p.m for enquiries. It is also advised that PD/MMs apply for their bond positions at CSCS or visit our website (www.ccsnigerialtd.com) to ascertain their bond balances, and their net cash balances at CBN after each day’s trade.

(k) PD/MMs with multiple accounts must state the particular account number the Bond should be traded from and deposited into.

(l) CSCS to advise CBN of the net bond and cash positions of the PD/MMs by 3.00pm on daily basis.

TREASURY BILLS:

CSCS Ltd is the Clearing agent of the Secondary market Nigeria Treasury Bills (NTBs) traded through OTC and CBN acting as the Registrar and Settlement bank.

SETTLEMENT PROCEDURE:

9.0 All NTBs schedules must be submitted to CSCS in duplicates on trade date or latest by 9.00 a.m. of T + 1.

10.0 CSCS processes same and advise CBN of the daily net NTB and cash positions of the PDMMs on each day settlement.
APPENDIX V: GOVERNMENT SECURITIES

WHAT ARE GOVERNMENT SECURITIES?

Government Securities are transferable interest representing financial value. The Central Bank of Nigeria is saddled with the responsibilities of issuing these securities on behalf of the Federal Government.

TYPES OF GOVERNMENT SECURITIES.

Government Securities include the following:

- Nigerian Treasury Bills (NTB)
- Nigerian Treasury Certificate (NTC)
- Treasury Bonds
- FRN Development Stocks
- FGN Bonds

ATTRIBUTES OF GOVERNMENT SECURITIES.

Nigerian Treasury Bills (NTB):
- Means of subscription: Through Money Market Dealers (MMDs).
- Issued at a discount payable in full at maturity.
- Mode of subscriptions: Wholesale Dutch Auction System (WDAS)
- Unit of subscription: 10,000 in multiples of 1,000
- Tenor range is from 91 days to 1 year
- Tradable
- Rediscountable
- Qualifies as liquid asset for banks
- Mode of repayment: Credit of accounts on repayment day.

Federal Government Bonds (FGN Bonds)

- Means of subscription: Through Primary Dealers Market Makers (PDMMs).
- Issued at par.
- Mode of subscription: Common price auction.
- Unit of subscription 10,000 in multiples of 1,000
- Interest bearing (Bi-annual interest payment).
- Tenor range is 3 to 20 years.
- Trade able
- Callable
- Qualify as liquid asset for banks
- Zero weighting for capital adequacy purposes for banks
- Mode of redemption: warrant/crediting of accounts
- Sinking fund provision.

FRN Development Stocks

- Means of subscription: Through stock brokers and banks
- Issued at par.
- Mode of subscription: common price auction
- Unit of subscription: 20
- Interest bearing (Bi annual interest payment).
- Tenor range is 7 to 25 years
- Tradeable at the Nigerian Stock Exchange
- Non rediscount able
- Mode of redemption: warrant/crediting of accounts.
- Sinking fund provision

FRN Treasury Bonds

- Issued by conversion.
- Interest bearing (annual interest payment)
- Tenor range is from 5 to 20 years
- Non trade able to the public.
- Holders: CBN and Sinking fund.
The two Markets involved in the Issuing and management of Government Debt instruments are:

- Primary Market
- Secondary Market

**PRIMARY MARKET**

   - Obtain authority to issue from Ministry of Finance through Debt Management Office
   - Issue advertisement indicating:
     - Issue amount
     - Tenor
     - Date of issue
     - Settlement date

**TYPES OF AUCTION SYSTEMS**

There are two major types of auction systems we adopt in the floatation of government debt instruments.

- **Dutch auction system:**
  This auction system is adopted for debt instruments (i.e. NTB, NTC and ‘Zero coupon Bonds’) whose Bid price is usually expressed as a discounted value. The Dutch auction therefore allows investors to submit bids at preferred price at which they are ready to buy and pay at their own bid price. This auction also applies to zero coupons.

- **Common Price auction:**
  This auction system is adopted for interest bearing long dated debt instruments (i.e. FRN Development Stocks, FGN Bonds) where customers submit bids of their own rate but only the ruling rate will apply to all successful bids.

**SECONDARY MARKET**

Secondary market is the market for trading of previously issued securities. Tenors of the securities traded are shorter than the original tenors.

**TRADING PLATFORMS**

Nigerian Treasury Bills and FGN Bonds:
Central Bank T24 securities modules.
- CSCS: Over the counter trading in NTBs and FGN Bonds.
- Reuters: broadcasting to MMDs and two-way quotes trading activities.

**Settlement Cycle**

- Primary auctions for NTB: T+1
- Primary auctions for FGN Bonds: T+2

**Settlement Infrastructure**

- Temenos Globus (T24)
- Reuters

**Settlement System**

Nigerian Treasury Bills and FGN Bonds

- Book entry

**Depositories**

Nigerian Treasury Bills and FGN Bonds

- CBN and CSCS
FLOW CHART SHOWING HOW SECURITIES MOVE FROM TRADING PLATFORM TO FINAL SETTLEMENT

BILL/BONDS IN CBN DEPOSITORY

OBB

EXCHANGE OF BILLS FOR FUNDS AND FUNDS FOR BILLS TAKES PLACE AMONGST BANKS
BOOK ENTRIES OF BILLS/BONDS IN CBN DEPOSITORY MIRROR TO CSCS DEPOSITORY

TWO-WAY QUOTES

OVER THE COUNTER TRADING AMONGST BANKS IN CSCS

PROCESSING OF TRADING ACTIVITIES BY CSCS THE FOLLOWING DAY TO ARRIVE AT NET SETTLEMENT OF BILLS/BONDS AND FUNDS

FINAL SETTLEMENT OF BILLS/BONDS AND FUNDS BY CBN THE SECOND DAY