



CENTRAL BANK OF NIGERIA

APPOINTMENT OF PRIMARY DEALERS IN MONEY MARKET INSTRUMENTS

REQUEST FOR EXPRESSION OF INTEREST

The Central Bank of Nigeria, in its effort to deepen and improve the efficiency of the Money Market for effective liquidity management, is in the process of appointing Primary Dealers in Money Market Instruments. Primary Dealers will be selected in accordance with the procedures set out in the Central Bank of Nigeria *Guidelines for Primary Dealership in Money Market Instruments*.

Interested Deposit Money Banks and Discount Houses are requested to collect application forms from the office of the Director, Banking Operations Department, Central Bank of Nigeria, Abuja or Lagos.

Copies of the Guidelines will be issued along with the application forms from September 4, 2006 and can also be downloaded from our website: www.cenbank.org

Duly completed application forms should reach the Director, Banking Operations Department, Central Bank Of Nigeria, Abuja or Lagos not later than September 8, 2006.

**BANKING OPERATIONS DEPARTMENT
CENTRAL BANK OF NIGERIA
ABUJA**

AUGUST 30, 2006

GUIDELINES FOR PRIMARY DEALERSHIP

IN MONEY MARKET INSTRUMENTS

1. Introduction

The Central Bank of Nigeria (CBN) has the responsibility to develop the money market in order to enhance the effectiveness of its monetary policy. It has taken various initiatives in the past to develop institutions, instruments and processes to facilitate the growth of the market. To further improve the effectiveness and efficiency of the market, and improve liquidity management, the CBN is appointing primary dealers/ market makers for money market instruments.

2. Objectives

The main objectives for the establishment of primary dealership are:

- i. To deepen the money market and improve efficiency in trading of money market instruments.
- ii. To facilitate liquidity management.
- iii. To create public awareness, thereby promoting the demand for money market instruments.

3. Money market instruments.

For the purpose of the guidelines, money market instruments refer to Nigerian Treasury Bills (NTBs), Nigeria Treasury Certificates (NTCs), CBN OMO Bills and other instruments that may be introduced by the CBN from time to time.

4. Appointment of primary dealers

a. Criteria

The CBN shall evaluate application for primary dealership licence and appoint primary dealers based on the following criteria:

- i. A primary dealer shall be appointed from licensed deposit money banks and discount houses.
- ii. An applicant for primary dealership shall be registered with the Corporate Affairs Commission and the Securities and Exchange Commission.
- iii. An applicant shall maintain a minimum capital base of N3.00 billion and comply with liquidity and other regulatory requirements of the CBN.
- iv. An applicant shall have been actively involved in securities trading and shown a minimum amount of trading in Nigerian Treasury Bills over a period of time.
- v. An application for primary dealership licence shall be submitted in writing to the Director, Banking Operations Department, CBN, Abuja or Lagos.

b. Conditions

On appointment as a primary dealer, the following conditions shall apply:

- i. A primary dealer shall submit a letter of undertaking to abide by the guidelines on primary dealership and any other requirement that may be stipulated by the CBN from time to time.
- ii. A primary dealer shall operate a current account with the CBN for the purpose of dealing in money market instruments.
- iii. A primary dealer shall ensure that its account is properly maintained at all times, and shall not be overdrawn for any reason.
- iv. A primary dealer shall be linked to the CBN on-line trading and information systems.
- v. A primary dealer shall have internet access and dedicated telephone lines for dealing with the CBN.
- vi. A primary dealer shall have voice recording machines.

5. Institutional arrangements

- i. Primary dealers shall be supervised by the CBN on all matters relating to primary dealership.
- ii. A primary dealer shall apply administrative and institutional arrangements that allow for transparent and safe operations.
- iii. Appointment of a primary dealer shall be terminated by the CBN, upon the breach of any of the provision of the guidelines.

6. Auctions

a. Scope of Operation.

Only primary dealers in money market instruments shall be allowed to participate at auctions. They are eligible to conduct trading activities in money market instruments by two-way quote or as may be prescribed by the CBN from time to time.

b. Procedure for Bidding.

- i. Primary dealers are allowed to submit multiple bids for their accounts and on behalf of their customers.
- ii. Primary dealers are allowed to submit competitive bids for themselves and for their customers.
- iii. The CBN reserves the right to reject any bid by a primary dealer for itself that is above 25.0 per cent of the total amount on offer.
- iv. In case of under-subscription, primary dealers shall be expected to underwrite the unsubscribed amount based on equal proportion.
- v. All non-primary dealers shall submit their bids through primary dealers.

- vi. Individual investors shall not be allowed to make payment directly to the account of primary dealers with the CBN; neither will the CBN effect payment on matured instruments to any investor directly.

- vii. Primary dealers shall submit their bids with a list of investors along with their names, addresses and amounts applied for.
- viii. The CBN reserves the right to accept or reject any bid or any portion thereof.

c. Repayment of Matured Bills.

- i. Primary dealers shall be responsible for the settlement of their customers' matured instruments for which they had submitted bids and shall also be liable to the CBN for any loss incurred as a result of failure to settle such bills.
- ii. Primary dealers shall be required to forward to the CBN a schedule, analyzing all matured instruments for repayment on each maturity date.
- iii. The current accounts of primary dealers shall be credited with proceeds of matured instruments in favour of their customers.

d. Underwriting Incentive

An underwriting incentive of 0.125 per cent above the weighted average rate shall be allowed a primary dealer for its portion of underwriting for the unsubscribed market instrument.

e. Activity Report

- i. Primary dealers shall maintain accounting and other records of their activities in the primary and secondary markets as specified by the CBN from time to time.
- ii. All primary dealers shall submit the following reports on the prescribed formats to the CBN:
 - 1) Report on daily composition of the primary dealer's portfolio with the CBN
 - 2) Weekly statistical reports on the Nigerian Treasury Bills holding and trading activities.
 - 3) Market data report.

4) Any other report as may be required by the CBN from time to time.

7. Code of Conduct

- i. Primary dealers shall not refuse to bid on behalf of, or offer money market instruments to, a qualified investor.
- ii. Primary dealers shall not divulge any information relating to a third party, with the exception of filing appropriate reporting requirements, and to government agencies, or as may be required by law.
- iii. Primary dealers shall display the 2-way quote and strictly abide by it.

8. Review of the Guidelines

The guidelines shall be subject to regular review.

Glossary of Terms

1. **Primary dealer** - An institution licensed by the CBN for the purpose of trading in money market instruments for its own account or on behalf of individual and institutional investors.
2. **Auction** – A competitive bidding process employed by the CBN to allocate and sell money market instruments.
3. **Bid** – An offer to buy a stated face value of money market instrument at an auction.
4. **Dutch auction** – A competitive auction in which instruments are sold to the bidders at their quoted winning prices.
5. **Discount rate** – An annualized rate of return to maturity on instruments based on their face value.
6. **Money market instrument** – A security whose tenor does not exceed 3 years.
7. **Issue date** – The date on which a bill is issued.
8. **Maturity date** – The date on which a bill becomes due and payable.
9. **Primary market** – The market for new issues of money market instruments.
10. **Secondary Market** – The market where previously issued instruments are traded.
11. **Two-way quote** – A binding market practice whereby both the bid and offer rates are quoted.

August 10, 2006