



NAFEX

The Nigerian Autonomous Foreign Exchange Rate Fixing Methodology

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1. INTRODUCTION

This document provides a summary of the methodology that FMDQ OTC Securities Exchange (“FMDQ”) applies to establish **NAFEX** - the Nigerian Autonomous Foreign Exchange Rate Fixing.

2. BACKGROUND

FMDQ is an over-the-counter (“OTC”) securities exchange with a mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy. This mission is achieved by providing the secondary market with a world-class market governance and development service to the benefit of market participants and in support of the objectives of the financial services regulators. Consequently, FMDQ is committed to developing and publishing independent and transparent benchmarks which are reasonably designed to be reflective of the market at the time of the fix and promote transparency in the OTC markets.

FMDQ Fixings meet the requirements of domestic regulations as well as the International Organisation of Securities Commissions (“IOSCO”) Principles for Financial Benchmarks on governance, quality of the methodology and accountability mechanisms.

NAFEX is the FMDQ benchmark rate for Foreign Exchange (“FX”) spot operations in the Investors’ & Exporters’ FX Window (hereinafter referred to as the “Window”). NAFEX is designed and generated independently and objectively and also published every business day at a specific time.

2.1. Uses of NAFEX

An FX fixing is an essential component of the Nigerian financial system. Its importance to the financial industry and other non-financial sectors arises from the impact of a country’s exchange rate on almost all sectors of the economy.

NAFEX will benefit the Nigerian economy in general and the financial industry in particular in a number of ways, including:

- Serving as a fixing for the settlement of FX derivatives
- Promoting transparency and awareness of USD/NGN rates
- Enabling foreign and local investors benefit from a market-driven independent reference rate
- Increasing forward contracts usage towards a reduction of investments in currency principals and foreign currency line utilisation
- Developing hedge products and derivatives, thus improving the standard of the Nigerian FX market
- Providing growth and income potentials for market players through the trading of hedging products
- Serving as a benchmark for portfolio valuations, conversions, performance measurement and audits

2.2. Key Considerations

2.2.1. Benchmark Administrator

FMDQ is the benchmark administrator for NAFEX and thus has primary responsibility for all aspects of the benchmark determination process. This process includes the development, determination, dissemination, operation and governance of NAFEX.

2.2.2. Active Market

FMDQ recognises that to enable the publication of a meaningful benchmark, a market in the currency pair represented by the benchmark must genuinely exist and that market must be active. However, the economic realities will dictate the relative meaning of what 'active' means, as market liquidity can vary significantly at particular times of the day. FMDQ applies the IOSCO Principles for Financial Benchmarks 7 & 8 – "Data Sufficiency" & "Hierarchy of Data Inputs" in determining thresholds for an "active market."

2.2.3. Data Sourcing

FMDQ may use transactional data entered into on an arm's length basis between buyers and sellers in the market, where that data is available and reflects sufficient liquidity. In a market where liquidity levels are low, the benchmark may be based predominantly or exclusively on contributed quotes.

2.2.4. Governance and Transparency

FMDQ is subject to a corporate risk framework which is based on three (3) lines of risk management:

- i. Business procedures and controls are designed to promote consistency throughout the process
- ii. The application of independent governance, reporting and risk management. The Board of Directors and relevant Board Committees are responsible for oversight of FMDQ Fixings, including reviewing and advising on the policies and methodologies by which FMDQ calculates, administers and publishes the Fixing.
- iii. FMDQ Fixings are discussed and adopted by an Oversight Committee i.e. the Market Review Committee, consisting of members of the FMDQ Management Team who perform the required due diligence on the proprietary Fixings.

Furthermore, in line with the IOSCO Principles for Financial Benchmarks, FMDQ shall publish submitted quotes received from contributing banks with the eliminated quotes identified.

2.2.5. Exercise of Expert Judgment

FMDQ may exercise discretion on the use of data in determining a Fixing. The calculation of a Fixing includes a validation process whereby, among other steps, FMDQ reviews data and fixes rates under certain pre-determined tolerance checks. When applying tolerance checks, FMDQ has the discretion (subject to internal policies and procedures) to include or reject certain data from the calculation of the Fixing. Based on FMDQ's experience in interpreting market data, FMDQ shall apply expert judgment when necessary with the intent of ensuring the quality and integrity of the benchmark rate. Consequently, FMDQ has put in place internal guidelines and quality control procedures that govern the application of "Expert Judgment" and are intended to provide consistency and oversight to the process.

3. FIXING DYNAMICS

3.1. Fixing Methodology - NAFEX Spot Rate

NAFEX Spot rates shall be determined as detailed below and contributing banks shall be expected to submit only 'professional spot quotes'. Where a contributing bank submits an unprofessional quote, such a quote will automatically be disqualified from the NAFEX computation. Contributing banks shall quote single rates for transaction sizes of \$5,000,000.00 and above or as advised by FMDQ, at the time of the poll.

3.1.1. NAFEX is a polled rate based on the submissions of ten (10) contributing banks and calculated using a trimmed arithmetic mean. Upon receipt of quotes, the individual contributing banks' submission is ranked in descending order. The lowest and highest two (2) quotes are eliminated from the ranked rates leaving only the middle six (6) rates. The arithmetic mean of the remaining rates are then calculated to two (2) decimal places and disseminated as the NAFEX Spot Rate.

3.1.2. NAFEX shall be published daily by 12:00noon.

3.1.3. Where FMDQ receives fewer than the required number of submissions by the time NAFEX is due for publication, the reduced submissions methodology detailed below shall apply:

- i. NAFEX will be published provided that two (2) or more quotes are obtained on a daily basis
- ii. The calculation methodology shall remain the same irrespective of the number of submissions received. However, under the reduced submissions methodology, the number of submissions excluded on the high and the low side ('topped and tailed') shall apply as detailed in the table below:

No. of Quotes Received	No. of Highest Rates Excluded	No. of Lowest Rates Excluded
8 - 9	1	1
7 - 2	0	0
1 or less	NAFEX not calculated and Contingency Plan activated	

3.13 If data remains insufficient by 12:00 noon, FMDQ shall activate the NAFEX Contingency plan as detailed below.

3.2. Contingency Plan

3.2.1. In instances where there are quotes below the documented threshold, the previous day's NAFEX shall be maintained and published as the current NAFEX.

3.2.2. In circumstances of a force majeure event, leading to the unavailability of quotes in the market, the previous day's NAFEX will be maintained and published as the current NAFEX.

- 3.2.3.** Any republished rates from the previous business day shall be identified as such on the FMDQ¹ e-Markets Portal.
- 3.2.4.** After five (5) consecutive business days of republishing the previous day's NAFEX (in this case, the NAFEX of 5 business days prior), an FMDQ Market Review Committee meeting shall be convened in a special session to devise a strategy for the appropriate determination of future NAFEX during the extreme market condition, towards preserving the continuity of the NAFEX publication.

4. PUBLICATION

NAFEX Spot Rate is available in three (3) packages – Real-time, 24-hour Delayed and Historical:

- **Live Fix:** Available at 12:00 noon daily via the FMDQ e-Markets Portal
- **Delayed (24 hours):** Published via the FMDQ website²
- **Historical:** Available via the FMDQ e-Markets Portal

¹ Please contact the FMDQ Business Origination Team – bog@fmdqotc.com for further details

² www.fmdqotc.com