



**DEBT MANAGEMENT OFFICE
NIGERIA**

**A GUIDE TO OPERATIONS
FOR THE DEBT MANAGEMENT OFFICE, NIGERIA IN THE
FEDERAL GOVERNMENT OF NIGERIA BOND MARKET**

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Debt Management Office, Nigeria*

GUIDE TO OPERATIONS FOR THE DEBT MANAGEMENT OFFICE (DMO) IN THE FEDERAL GOVERNMENT OF NIGERIA (FGN) BOND MARKET

This Guide to Operations sets out the objectives and procedures for the DMO's operations in the FGN Bond Market, acting as the Government's debt manager.

The Guide sets out the usual market operations which the DMO undertakes in the FGN Bond Market. In exceptional circumstances, the DMO may undertake other operations at its discretion. The DMO may also announce variations in these arrangements, or new forms of market operation, either by special announcement or supplementary guidelines.

I. Framework for FGN Bond Market Operations

1. The framework for the FGN Bond Market is set out in the *General Rules and Regulations Governing the Primary Dealer Market Maker System in Federal Government of Nigeria (FGN) Securities*, first produced in December, 2005 and revised in December, 2009. A description of other responsibilities, objectives and lines of accountability of the DMO, relating to the FGN Bond Market is contained in the Debt Management Office (Establishment) Act, 2003.
2. The objective of the DMO is to minimize, over the long term, the cost of meeting the Government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the objectives of monetary policy.
3. As part of the budget process, the Federal Ministry of Finance (FMF), coordinates the process of determining the financing needs for the coming year. The DMO then draws up a debt issuance program for the year, which includes information on volume, tenor, pricing and dates. Within that framework, the Government will aim each year to sell sufficient FGN securities to finance the Federal Government's net cash requirement, including maturing debt obligations.
4. This Circular describes the arrangements for the primary and secondary market operations which the DMO undertakes in implementing the FGN Bond program.
5. Any changes to the arrangements described below, will be published through updates to the relevant sections of this operational guide.

II. Auctions

6. Auctions constitute the primary means of FGN Bond issuance.

(a) Prior Notice of Auction Details

7. The Auction Calendar for each financial year will indicate:
 - the number of auctions to be held during the year;
 - the dates planned for each auction; and,
 - a range for the size of the auctions in cash terms.

8. The FGN Bond Issuance Program, and in particular the number and timing of auctions, may be altered during the year in the light of substantial changes to some variables, which include:
 - the Government's forecast of the Federal Government Net Cash Requirement;
 - the FGN Bond Yield Curve;
 - market expectations of future interest and inflation rates; and,
 - market volatility.
9. At the end of each quarter, plans for the auctions to be held in the following quarter will be announced. These will indicate the individual maturities and amounts to be issued.
10. The DMO will publish the offer details at least one week in advance of the auction, on the DMO's website and in major national dailies. The announcement will give details of the issue date, the maturity date(s), amount(s) offered and any other information needed.
11. Any re-issues (re-opening) of existing bonds will usually be fungible with the parent issue from the settlement date of the auction.

(b) Structure of Auctions

12. Auctions are open to designated Primary Dealer Market Makers (PDMMs) who may bid for their own accounts and on behalf of other investors. There are two basic auction processes that the DMO may employ - single price (Dutch Auction) and multiple price. The DMO currently uses the Dutch Auction. This is conducted on a yield and single price basis, where successful bidders are allotted bonds at the lowest price/highest yield that clears the market. The DMO does not set a minimum price, but may apply a Cut-Off Rate in exceptional circumstances such as in instances where the bid rates at the auction do not reflect prevalent market conditions. The DMO may employ the use of multiple price method, where bidders are allotted bonds at the prices/yields which

they bid. However, the market will be duly informed before the introduction of the multiple price system.

13. Submitted bids, in auctions of FGN Bonds, must be for one amount and at one price, expressed in yield to maturity to three decimal places. Multiple bids are permitted. Bids must be for a minimum of N10,000 and in multiples of N1,000 thereafter.

(c) Bidding Procedure

14. The bidding procedure is as follows:

- Bids may be submitted beginning at 10:00 am on the day of the auction;
- PDMMs may bid on their own behalf or for clients by filling out the prescribed Tender for FGN Bonds, which, is available at the DMO's website: www.dmo.gov.ng; or the Central Bank website: www.cenbank.org;
- Bidding will close at 1.00 p.m.

(d) Determination of the Results

15. As already noted, auctions are typically conducted on a yield/price basis, with no prescribed minimum price. The DMO expects all PDMMs to participate actively in the auction process and to bid on a competitive basis, as part of their commitment to the market.

16. The DMO will allot bonds to individual bidders at its absolute discretion. In particular, it may decline to make an allotment to an individual bidder if it appears that to do so would likely lead to market distortion. PDMMs shall submit bids for their proprietary account and on behalf of their customers. No PDMM or customer with their affiliated entities as a group, may be awarded more than 30% of any auction.

(e) Publication of the Results

17. The DMO will ensure that the result of each auction is published latest 10:00 a.m., the day following the auction. The publication will include - summary statistics indicating the highest and lowest accepted yields/prices and the ratio of bids received to the amount on offer (the cover), including bids rejected in whole or in part on account of

price. These details will be made available on the DMO's website and by a press circular.

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