

OPERATIONAL CIRCULAR NO. 1



**DEBT MANAGEMENT OFFICE
NIGERIA**

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

**December 31, 2015
Debt Management Office, Nigeria**

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

INTRODUCTION

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

VALIDITY AND AMENDMENTS

The Guide sets out the usual market operations which the DMO undertakes in the FGN Bond Market and is valid till December 31, 2017. In exceptional circumstances, the DMO may undertake other operations at its discretion. In addition, the DMO may also introduce variations in these arrangements, or new forms of market operations, either by Special announcements, Notices or Supplementary Guidelines or Circulars.

SECTION I. FRAMEWORK FOR FGN BOND MARKET OPERATIONS

1. In addition to this Circular 1, the Framework for the FGN Bond Market is set out in the Debt Management Office's (DMO) Operational Circular 2 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 and August 2012. 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. These Operational Circulars and the DMO Act 2003, are to be interpreted along with any other Guidelines, Circulars, Procedure Manuals and Notice that the DMO may issue from time to time.
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 Programme for the year, which includes information on Volume, Tenor and Auction 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 programme.
5. Any changes to the arrangements described below, will be published through amendments to the relevant sections of this Operational Circular.

SECTION II. AUCTIONS

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

A. Prior Notice of Auction Details

7. The DMO will release Auction Calendars on a quarterly basis or as may be determined from time to time for each fiscal year. The Auction Calendar will indicate:
 - i. The number of auctions to be held during the Quarter;
 - ii. The dates planned for each auction;
 - iii. A range for the size of the auctions in terms of Amounts; and,
 - iv. Indicative Tenors of the Bonds to be issued.
8. The FGN Bond Issuance Programme, and in particular the number and timing of auctions, may be altered during the year in the light of material changes to some variables, which include:

- the Government's forecast of the Federal Government's Net Cash Requirements;
 - the FGN Bond Yield Curve;
 - market expectations of future interest rates and inflation; and,
 - market volatility.
9. At the end of each quarter, the Auction Calendar for the auctions to be held in the following quarter will be issued. These will indicate the individual tenors and indicative amounts to be issued. The Auction Calendar will be placed on the DMO's website.
 10. For each Bond Auction, the DMO will publish an Offer Circular at least one week in advance of the Auction, on the DMO's website and in major national dailies. The Circular will give details of the Auction Date, the Securities, Tenor(s), Amount(s) to be offered and any other necessary information.
 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 DMO-licenced Primary Dealer Market Makers (PDMMs) who will bid for their own accounts and on behalf of other investors.
13. 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 System. 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 may also employ the use of Multiple Price System, where bidders are allotted bonds at the prices/yields which they bid. 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.
14. The market will be consulted and informed before the introduction of the Multiple Price System.
15. Bids submitted at the Auctions of FGN Bonds, must be for one amount and at one price, expressed in yield to maturity to four 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

16. The bidding procedure is as follows:
 - i. Bids should be submitted to the Central Bank of Nigeria (which is the DMO's Agent for this purpose) beginning at 10:00 a.m. on the day of the Auction;
 - ii. 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.cbn.gov.ng;

- iii. The DMO may accept non-competitive Bids from designated Government Agencies or Government Funds;
- iv. The DMO may make Special Allotments to designated institutions, primarily Government Agencies and Funds at Auctions where the request from the bidder is greater than the maximum of 30 per cent of the amount of the Bond that is being offered at the Auction or for any other reason the DMO considers appropriate provided that Notice of such Special Allotments would be included in the Offer Circular; and,
- v. Bidding will close at 1.00 p.m. on the day of the Auction.

D. Determination of the Results

- 17. Auctions shall be typically conducted on a yield/price basis, with no prescribed minimum price.
- 18. 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.
- 19. No PDMM or customer with their affiliated entities as a group, may be awarded more than 30 per cent of the security offered at any Auction.

E. Publication of the Results

- 20. The DMO will ensure that the result of each Auction is published latest **4:00 p.m. on the day of auction (except in the event of unforeseen circumstances)**. 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.

F. Settlement

- 21. PDMMs with successful bids submitted by them for their own account and on behalf of Customers on the Settlement Date (T+2) following the Auction date are to provide funds for the consideration value of their successful bids.
- 22. The accounts of PDMMs with the CBN shall be debited on the Settlement Day, presently two (2) working days after the auction (T+2) with the full consideration. PDMMs are to define the process for the funding of bids by Customers in line with their own procedures and risk management practices.
- 23. Delivery of the Bonds advised in Paragraph 21 shall be made into the accounts of PDMMs with the CBN on Scripless Securities Settlement System (S4) on the Settlement Day. PDMMs are required to transfer the Bonds to the Custodian Accounts of their Customers on the same day, for Customers that elect to receive Bonds electronically. Customers who require confirmation of their bond investments can request for a "*Letter of Allotment*" from the CBN.

24. The DMO and CBN shall not be responsible for defaults in the payment by Customers to PDMMs for successful Bids or transfer of Bonds from the PDMM to the Customer. However, the DMO will endeavour to assist in resolving any issue relating to transfer of bonds, without commitment to cost.

G. Other Operations in FGN Bonds

25. The DMO may undertake some activities in the Secondary Market for FGN Bonds as part of measures to develop the market, through actions to promote liquidity and transparency amongst others. Such actions would include, Securities Lending, Securities Buybacks (including rump stocks and near-term maturities) and Securities Switches. The DMO's activities in these areas would be governed by Operational Circulars or Guidelines or Terms and Conditions or Procedure Manual to be issued for each type of activity.

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