



**DEBT MANAGEMENT OFFICE
NIGERIA**

**GENERAL RULES AND REGULATIONS GOVERNING
THE PRIMARY DEALER MARKET MAKER (PDMM) SYSTEM
IN FEDERAL GOVERNMENT OF NIGERIA (FGN) SECURITIES**

**December, 2009
Debt Management Office, Nigeria**

Pursuant to the provisions of sections 6, 7 and 23 and all other powers conferred upon it under the Debt Management Office (Establishment) Act 2003, the Debt Management Office hereby makes the following Rules and Regulations to implement its PDMM system for trading in FGN securities.

Introduction

The Debt Management Office (DMO) is the regulator of the PDMMs regarding their rights and obligations vis-à-vis the DMO.

The introduction of a PDMM system is intended to enhance the ability of the DMO to achieve efficient funding of the debt of the Federal Government of Nigeria through the development of strong primary and secondary markets. Qualifications for PDMM status shall be determined by the DMO and are subject to periodic review. The DMO is committed to the development of the FGN securities market, not only to be able to efficiently source funds for Government from a rationalized and efficiently working market, but also and more importantly, to facilitate the development of the overall capital market to enable sub-national and private sector access to long-term funds for the development of the real sector of the economy.

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RULE I. DEFINITION OF TERMS

Broker - Any person engaged in the business of effecting transactions in securities market for the account of his customer for a commission.

Broker Dealer - Any entity, other than a bank, engaged in the business of buying or selling securities on its own behalf or for others.

Competitive Auction - An auction in which securities are sold to the highest bids. Successful bidders are awarded securities at the prices that they bid, also known as Multiple Price auction.

Customer - Customers are all Non-Primary Dealer Market Maker (PDMM) institutions or individuals that purchase or sell Government Securities or engage in Repurchase Agreements in Government Securities with a PDMM.

Dealer - An entity that stands ready and willing to buy a security for its own account (at its bid price) or sell from its own account (at its ask price). Also defined as an individual or a firm acting as a principal in a securities transaction.

Dutch Auction - An auction in which the lowest price necessary to sell the entire offering becomes the price at which all securities offered are sold, also known as Single Price auction.

Federal Government of Nigeria Securities (FGN Securities) - Securities whose principal or interest is guaranteed by the Federal Government or its agents.

Federal Government of Nigeria Securities Dealer - A dealer in FGN Securities.

Inter-Dealer Broker - An intermediary between dealers in securities who matches 'best' bids with the 'best' offers to arrive at the right price.

Over-the-Counter Market - A securities market created by a network of dealers who trade securities through telephone or an electronic platform. The securities traded may or may not be listed on a Stock Exchange.

Primary Dealer Market Maker System - A system whereby some institutions are given exclusive right to purchase/underwrite all government securities issued for their own holding and/or for resale.

Primary Dealer Market Makers - Dealers appointed under the PDMM system.

Primary Market - The market in which new securities are issued by Governments, corporations, etc., in order to raise capital.

Regulatory Authorities - Regulators of different operators in the capital market e.g. Central Bank of Nigeria (CBN) for banks and discount houses, Securities and Exchange Commission (SEC) for capital market operators, the Nigerian Stock Exchange (NSE) for members registered to trade on the floors of the exchange and the DMO for financial institutions registered as PDMMs.

Repurchase Agreements (REPO) - A short-term loan agreement by which one party sells a security to another party but promises to buy back the security on a specified date at a specified price.

Secondary Market - The market in which previously issued securities are traded among investors.

Securities - Instruments that evidence the holder's claim against the issuer.

Securities Exchange - An organized market for the purchase and sale of securities such as a Stock Exchange.

RULE II. GENERAL PROVISIONS

- A. The PDMMs' role is to, among others, take up, market and distribute the Primary Issuance of FGN Securities and enhance secondary market trading activities.
- B. PDMMs may include Banks, Discount Houses and Broker-Dealers.
- C. **PDMM Criteria:** PDMM banks and discount houses shall comply with the requirements set forth by the Central Bank of Nigeria while broker-dealers shall comply with the requirements of the Securities and Exchange Commission and the Nigerian Stock Exchange before being considered for PDMM status by the DMO. That means that all prospective PDMMs must not be in violation of any rules and regulations of their respective regulatory agencies.
- D. **Capital Requirement for PDMMs:** The minimum capital requirement for PDMMs is ₦2.0 billion in Shareholders Fund, unimpaired by losses and excluding revaluation surplus, as at the last financial year-end before the date of application. This requirement is subject to review by the DMO from time to time.

RULE III. PRIMARY AND SECONDARY MARKETS

- A. 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.

- B. All non-PDMM bids shall be submitted through a PDMM, with the exception of designated government account/agencies which may be submitted through the Central Bank of Nigeria.
- C. Only PDMMs and any other financial institution operating in the Two- Way - Quote market for FGN Securities may trade through "Intermediaries" (Inter-Dealer Brokers) if and when such are established.
- D. The DMO will regularly schedule meetings with PDMMs for the purpose of receiving inputs into debt management proposals and recommendations regarding future debt issuance and general operations of the bond market.

E. Primary Market Requirements:

- 1. PDMMs shall abide by all primary issuance rules and requirements established by the DMO.
- 2. PDMMs shall take up a total amount equal to, at least, 70% of their proportional allotment of all primary offerings over a rolling six-month period, currently defined as an amount allotted to a PDMM relative to total allotment made to all PDMMs.
- 3. PDMMs are required to submit bids for non-PDMM institutions and individuals at the request of the institution or individual. They shall be expected to have customer bid submissions equal to at least 10% of their proportional share of total bids over a rolling six-month period.
- 4. In the event of undersubscription at the auction, the shortfall will be allotted proportionately to all PDMMs.

Under exceptional circumstances, the DMO reserves the right to apply a Cut-off Rate, and not to allot all of the bonds on offer, where it establishes that bids are at an unacceptably deep discount to the prevalent market level. Such circumstances would include but not limited to: market collusion, market manipulation and any misrepresentation. This is particularly pertinent in the "Dutch Auction" process where all bonds are allotted at the lowest accepted price that covers the amount offered, that is, at the Marginal Rate. In the event that the DMO applies a Cut-off Rate for any bond on offer, the PDMMs will not be obliged to take-up the unallotted portion of the bonds as indicated in "E4" above.

F. Secondary Market Requirements:

- 1. The DMO shall be responsible for monitoring the activities of PDMMs in the secondary market for FGN Securities.

2. PDMMs are obligated to make markets in FGN Securities on request, following the "secondary market making rules" as established by the DMO in consultation with the PDMMs. However, PDMMs are not obligated to quote prices to customers for whom they have not completed due diligence.
3. A PDMM shall maintain a minimum level of secondary market activity. The DMO, in consultation with the PDMM Association shall determine the minimum level of activity based on:
 - a. The total nominal value of securities traded; and,
 - b. The total number of trades.

Under this Guideline, each PDMM's activity must equal at least 50% of its proportional share of the measurements in paragraph F(3) above, over a rolling six-month period.

4. A PDMM shall publish representative price quotes on its corporate website or other public place on a daily basis.
5. PDMMs shall comply with the following:
 - a. No commission or fee shall be received by or paid to a PDMM or customer(s) for activities in the secondary market except Inter-Dealer Brokers (if and when such are established);
 - b. FGN securities shall be traded on the Over-the-Counter (OTC) Market. However, transactions on the NSE are permitted; and,
 - c. Trading shall be amongst the PDMMs and between themselves and non-PDMM institutions or individuals.

G. The DMO shall review the primary and secondary market activities of the PDMMs semi-annually, or at other intervals that the DMO may decide, and determine if individual PDMMs are fulfilling their primary market obligations as set out in E 1-5, and secondary market obligations in F 1-5 above. Non-compliance may result in the following actions:

1. A PDMM will be given a 30-day notice within which to explain any violations of Rule III, and another 30 days within which to rectify same. If found unsatisfactory, the DMO may suspend or revoke the PDMM's privileges;
2. **Suspension of PDMM Status:** The period of suspension shall be determined by the DMO and shall not be rescinded without formal renewed commitment to the requirements; and,

3. **Revocation of PDMM Status:** The PDMM status may be revoked and, re-issuance of the PDMM licence may be permitted after twelve (12) calendar months or such other period that the DMO may determine after a formal application would have been made by the affected PDMM.

RULE IV. REPORTING AND TECHNICAL REQUIREMENTS

A. Reporting Requirements:

1. PDMMs shall maintain such accounting and other records of their respective activities in the Primary and Secondary Markets as set forth by the DMO and their respective regulatory authorities from time to time.
2. All PDMMs shall file the reports in (a-b) below in electronic and hardcopy , with the DMO, within two (2) working days following the week under review:
 - a. Weekly position statements for the PDMM's trading account based on total holdings, by trade date, of FGN Securities in the following categories:
 - i. Bonds maturing in 3 years or less;
 - ii. Bonds maturing between 3+ years and 5 years; and,
 - iii. Bonds with maturities longer than 5 years.
 - b. Weekly secondary market trading activities in the PDMM's trading account with counterparts in the following categories:
 - i. Purchases and sales with other PDMMs.
 - ii. Purchases and sales with non-PDMM banks and discount houses;
 - iii. Purchases and sales with Pension Funds;
 - iv. Purchases and sales with other domestic clients; and,
 - v. Purchases and sales with foreign clients.

3. All PDMMs shall submit a monthly Report of Repo transactions undertaken by them for each month within five (5) working days of the end of each month in the format shown below;

(i) Details of FGN Bonds sold on Repo Basis to other parties.

Counterparty	Nominal Value ₦m
PDMMs	
Non PDMMs (Banks and Discount Houses)	
Pension Fund Administrators	
Other Local Institutions	
Foreign Institutions	

(ii) Details of FGN Bonds Bought on Repo Basis from other Parties.

Counterparty	Nominal Value ₦m
PDMMs	
Non PDMMs (Banks and Discount Houses)	
Pension Fund Administrators	
Other Local Institutions	
Foreign Institutions	

4. All PDMMs including those acting as custodians for foreign investors who participate in the domestic bond market shall file with the DMO, monthly bond holding positions by foreign investors for transactions in the primary and secondary markets within five (5) working days of the end of each month, detailing the following:

- i. Country of Origin;
- ii. Nominal Value of holdings in Naira.

5. All PDMMs shall file with the DMO, within one (1) week of each auction, reports of the auction activity detailing participation by:

- i. Own account;
- ii. Banks;
- iii. Discount Houses;
- iv. Pension Funds;
- v. Other Non-Bank Financial Institutions;
- vi. Foreign Investors; and,
- vii. Individuals.

6. Any other report that may be requested by the DMO from time to time.

B. Technical Requirements:

1. A PDMM, for the purpose of trading in FGN Securities, shall provide for the following:
 - a. Trading and Sales Office with designated office space for Trading and Sales Officers; and
 - b. Customer Service location(s).
2. A PDMM shall have communications equipment consistent with maintaining communications with other PDMMs and customers.
 - a. Interconnected telephone system with at least two (2) lines per trader and sales officer(s);
 - b. Fax machines; and/or e-mailing systems;
 - c. Computers and printers;
 - d. Financial calculators or programs for calculating securities prices and Yield-To-Maturity; and,
 - e. Trading and data screens capabilities.
3. The PDMMs shall have internal technical capabilities for providing current information to Management, Traders, Salesmen, the DMO and, other regulatory authorities. Such information shall include, but not limited to, those mentioned in paragraph 3 (a-f) below:
 - a. Daily Inventory Position;
 - b. Daily Profit and Loss;
 - c. Daily Mark-to-Market valuation;
 - d. Trading Activity;
 - e. Customer Activity; and
 - f. Credit review of current open trades with counterparties.
4. The DMO shall periodically embark on Facility Inspection visits to PDMMs' Offices to ascertain compliance with Rule IV B (1-3) above.

5. A PDMM will be given fourteen (14) days within which to rectify any violation of Rule IV (1-3) above, and if found unsatisfactory, the DMO may invoke any of the actions stated in Rule III, G (b- c).

RULE V. ORGANIZATIONAL STRUCTURE

A. Organization

1. PDMMs will provide the DMO with an organizational chart of its bond trading department and the names of individuals with management responsibilities for trading activities. This list should include the following:
 - a. All individuals with oversight responsibilities for trading activities related to FGN Securities;
 - b. All individuals with authority to buy or sell FGN Securities, including the manager of the relevant Department. Any changes in personnel with trading authority must be reported to the DMO, within seven (7) working days of assumption of duty by such staff; and,
 - c. The Manager for clearing and settlement operations.
2. A PDMM shall not employ any individual who has been sanctioned in activities relating to the FGN Securities Market, or barred from securities investing or trading activities by any regulatory authority including those listed in Rule II C.

B. Systems and Procedures

1. A PDMM shall have policies and procedures for creating limits and monitoring same for self, customers and its FGN Securities traders. These include:
 - a. Credit Policy that describes procedures for establishing limits with customers including limits on Repurchase Agreements on a per-customer or counter-party basis;
 - b. Risk Policy procedures for establishing institutional position limits in FGN Securities;
 - c. Risk Policy procedures for establishing individual trader position limits in FGN Securities.

2. A PDMM must have a policy on documentation and other procedures required for trading with counterparties.
 3. Compliance Policy that establishes a system of monitoring institutional and individual compliance to guidelines concerning investment and trading in FGN Securities by the regulatory authorities, as well as in-house policies and procedures.
- C. A PDMM will be given fourteen (14) days within which to rectify any violation of Rule V (A-B) above, and if found unsatisfactory, the DMO may invoke actions stated in Rule III, G (b-c).

RULE VI. CUSTOMER REQUIREMENTS

- A. The primary contact with a customer shall be through a Sales Officer. The PDMM is responsible for the actions of its Sales Officers.
- B. PDMMs shall comply with the following rules for customer activities:
 1. All information concerning customer activity is confidential and should not be provided to any party outside the individual PDMM with the exception of fulfilling the appropriate reporting requirements or demands of regulators and/or a Court of Law.
 2. PDMMs shall not refuse a request to bid at an auction or give a quote for FGN Securities from customers, provided such customers meet their customer selection or acceptance criteria. Specifically, for secondary market trades, Sales Officers shall make requests for customers' bids and/or offers to the appropriate Traders. They are required to relay the prices given by the Traders to the customer and immediately provide the customer's response back to the Trader. The flow of prices and information shall be without delay. The Sales Officer represents the customer and must accurately reflect all requests and responses to the Traders in a timely fashion.
 3. A Sales Officer is not allowed to bid at an auction on behalf of a customer or trade for a customer's account without proper authorization by the customer. Standing Orders may be placed by the customer and be subsequently filled by the Trader but the completion of the trade must be reported immediately to the customer and the transaction details confirmed within twenty four (24) hours by a means mutually accepted by the PDMM and its customer.

4. A PDMM may decline a customer request where the customer has not complied with the PDMM's internal policies or procedures such as Know-Your-Customer policy or where no limit (cash or credit) has been established for the customer or the request will lead to an excess in the customer's limit. A refusal to bid or trade with a customer should be made with the consent of the PDMM's management and the reason(s) should be disclosed to the customer.

RULE VII. PRIVILEGES

- A. The DMO shall determine specific benefits that accrue to the PDMMs. The DMO may review these benefits from time to time at its discretion;
- B. PDMMs have exclusive right to bid in auctions for themselves and for their customers;
- C. PDMMs may earn a Fee only on customers' winning bids. The Fee will be paid in the form of a Commission after the monthly auction at a Rate of 0.5%. The Fee may be changed at the discretion of the DMO; and,
- D. PDMMs may solely at their discretion share the Fee referred to in Rule VIIC above with their customers.
- E. PDMMs shall be paid an Underwriting Fee of 0.075% on their proportionate share of unsubscribed FGN Securities at any auction subject to the provision contained in Rule III E . The Fee will be paid after the applicable auction.
- F. Preferred Counterparty.

As with the auction process, the DMO will only deal with PDMMs in the FGN bonds secondary market. The DMO may be active in the secondary market in three areas:

1. Bidding for "rump "stocks";
 2. Executing transactions on behalf of government agencies or government funds ; and,
 3. Smoothing redemption cash flows through the purchase of near-maturity stocks.
- G. Other Privileges
1. PDMMs will have trading and viewing access to the services of approved Inter-Dealer Broker (IDB) firms (if and when established)

which will enable them to unwind or acquire positions with other PDMMs.

2. PDMMs are automatically invited to send a representative to the DMO's periodic consultation meetings on the FGN Securities market once appointed.
3. A PDMM automatically becomes a member of the Trade Group Primary Dealer Market Makers Association (PDMMA), a self-governing body that represents the PDMM community's interests in the wider market place and with other regulators.

RULE VIII. PRIMARY DEALER MARKET MAKERS ASSOCIATION

- A. PDMMs are required to establish an association known as the Primary Dealer Market Makers Association. Since the PDMMs are members of other large Trade Groups such as the Financial Markets Dealers Association (formerly Money Market Association of Nigeria), it is understood that the Association may at a future date be called by another name provided, however, that it bears relevance to the role of the PDMMs in the FGN Securities Market;
- B. PDMMs shall be encouraged to maintain an active membership of the Association;
- C. The Association may from time to time propose trading rules, procedures and changes to existing trading rules and procedures to the DMO for approval, the DMO shall be mindful of the need to respond in a timely manner. These trading rules and procedures shall include but not be limited to:
 1. Method of price quotations to other PDMMs in market making;
 2. Standard amount;
 3. Maximum spread;
 4. Standard settlement, (T+0, T+1, etc.) for secondary market trades;
 5. Trading hours;
 6. Method of price quotations for non-standard transactions; and,
 7. Sanctions for non-compliance by any PDMM.
- D. The Association may propose and establish an Inter Dealer Broker institution.

- E. The Association may within the context of its own rules admit other banks, discount houses and broker dealers into the two-way quote system, however, this should be advised to the DMO within seven (7) working days of such admission.

RULE IX. RESTRICTIONS AND ACTIVITIES

- A. PDMMs and their personnel are restricted from making any statements or engaging in any activity, which could negatively impact the FGN Securities market. The following activities are considered restrictive and in violation of this Rule.
1. **Market Misrepresentation** - PDMMs' personnel shall not disseminate rumours or false information about the market, price levels or market participants.
 2. **Customer Inducements** - PDMMs' personnel are forbidden from giving or receiving any form of compensation, monetary or otherwise, as inducement to bid at auctions or complete a trade for a customer.
 3. **Manipulation** - PDMMs' shall not engage in activities, which are intended to manipulate market prices or obstruct the efficient functioning of the market.
 4. **Personal Trading** - The PDMM's Bond Traders are restricted from any personal trading or investment activity in FGN Securities in the secondary market without prior notice being given to and approval received from the Trader's Compliance Officer. Ownership interests in FGN Securities shall be reported to the Trader's Compliance Officer.
 5. **Collusive Activities** - Traders and Sales Officers are strictly prohibited from activities with other PDMMs' customers, and individuals within the FGN Securities market resulting in transactions that do not reflect proper market practices.
- B. All persons engaging in activities, which jeopardize the efficiency of the marketplace, shall be prosecuted in accordance with the Investments and Securities Act (ISA), 2007 as may be amended from time to time and other applicable laws. In addition, the DMO may bar the individual from participating in the market for FGN Securities. Where it is the corporate body, its PDMM license may be revoked.

RULE X. DISSEMINATION OF INFORMATION

- A. The DMO may request that a PDMM comment or make recommendations on policies, market conditions or other matters that relate to the FGN Securities market. Dissemination of such requests outside the bond trading department is forbidden.
- B. Non-public information concerning any government statistics or policies is highly confidential and may not be made public.
- C. The receipt of confidential information from any unauthorized source must be reported to the PDMM's management and immediately reported to the DMO by the appropriate PDMM's officer.
- D. Failure to comply with these mandates or the dissemination of confidential information may result in disciplinary action by the DMO and other appropriate authorities.

AMENDMENT CLAUSE

Any part of this document may be amended by the DMO through the issuance of a circular(s) specifying the amendment thereof.

**Debt Management Office,
The Presidency,
Plot 447 / 448, Constitution Avenue,
Central Business District,
P.M.B. 532 Garki, Abuja – Nigeria.
Tel: 234-9-6725629.
Email: enquiries@dmo.gov.ng
Website: www.dmo.gov.ng**