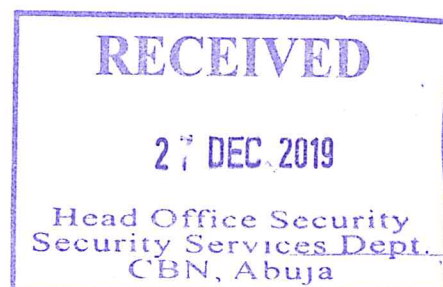


Association of Global Custodians
Middle East and Africa Focus Committee ("AGC ME&A")

20 December 2019

The Governor
Central Bank of Nigeria
Abuja

Attention: Mr. Godwin Emeziele CON



Dear Sir

RE: CIRCULARS RESTRICTING INVESTMENTS IN OMO BILLS: IMPACT ON FOREIGN GLOBAL CUSTODIANS

The Association of Global Custodians¹ (AGC) is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe.

We refer to the circulars of the Central Bank of Nigeria (CBN) dated 23 and 24 October 2019, restricting local corporate and individual investors from investing in Open Market Operations (OMO) treasury bills of the CBN effective 23 October 2019. The interest of our members in this matter are reflected in the fact that foreign portfolio investors are reported² to hold 44.78% of outstanding OMO bills. The impact of the circulars is to bifurcate the money market trading universe in Nigeria by instrument type and this has had the following significant impacts on foreign portfolio investors that hold money market instruments in their portfolios:

1. There is a heightened sense of uncertainty regarding the market operating conventions and conditions in Nigeria. In particular, there is concern regarding the unexpected change where OMO bills that were, prior to 23 October 2019, traded and settled as fully fungible and interchangeable with Nigerian Treasury (NGT) bills can no longer be traded and settled in the same manner.
2. We are concerned, especially considering the impact on foreign investors, that there appears to have been no engagement with the key market infrastructures and custodians before releasing the circular. If this had taken place, regulators may have identified a solution that best suited all parties and avoided the situation where investors and industry intermediaries now hold securities other than what they bought and potentially stand to incur losses to rectify this state of affairs. It

¹ The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company. For more information visit www.theagc.com.

² Friday, October 25, 2019 / 07:45PM /by CardinalStone Research/ Header Image Credit: The Sun Nigeria

is unclear who should properly bear these costs. This has a negative impact on investor confidence and their future investment plans in Nigeria.

3. The circulars cited above have resulted in a material price difference between OMO bills and NGT bills with adverse effect on the trading instructions and holdings of Global Custodians' underlying investors. Prior to the issuance of the above circulars, the universe of OMO bills and NGT bills had been trading based on maturity dates as market conventions, with the same rate and yield curves and had therefore been fungible for investors. We are currently facing the situations where we our members report that they hold OMO bills where their expectation and intention had always been to hold NGT bills.
4. Market settlement operations have been disrupted by the change. Inflight transactions have been unable to settle because firstly the instruments are no longer fungible and secondly there is differentiated demand for one over the other. In the absence of effective market intervention foreign portfolio investors are therefore constrained to maintain holdings in OMO bills with limited opportunities to trade out of these positions either at all or at acceptable price levels. The AGC acknowledges the notification contained in the CBN letter issued on Friday, 8 November 2019 confirming the CBN would purchase OMO bills from the market we are however, uncertain of the commercial terms that will apply in the case of a sale to the CBN.

We respectfully request consideration of the following proposals:

1. That the CBN reviews the policy and move to limit its application to OMO bills issued after 23 October 2019 and thereby allowing OMO bills issued before 23 October 2019 to continue to trade and settle as fully fungible with NGT bills. Or alternatively,
2. That the CBN consider issuing T Bills in place of OMO bills to address the gaps in pre-23 October portfolio position to prevent any financial losses for investors.
3. In the event that the CBN does not accept either of the proposals set above then we would appreciate the CBN's guidance on the treatment of investment losses that flow from this change in status of the instruments in question. Some of our members have had to cancel trades at some cost and further losses and costs are anticipated.
4. That, in line with international standards, the CBN strengthen the policy on ISIN usage in the market. In particular, that ISIN be adopted for all instruments retrospectively not just as an identifier for transaction execution but also as a matching criterion for transaction settlement.

Your positive review of the circulars and consideration of these proposals would be appreciated.

The AGC Middle East and Africa Committee (AGC ME&A) appreciates the opportunity to convey members' views to you on these important matters. Our members stand ready to meet with you to discuss the issues identified and the points conveyed in this letter.

The AGC ME&A communication details are as follows:

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Yours sincerely,



Prepared by the Middle East and Africa Committee

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