



**NIGERIAN INTER-BANK OFFERED RATE FIXING
(NIBOR) FREQUENTLY ASKED QUESTIONS**

September 2019

1. What is NIBOR?

The Nigerian Inter-bank Offered Rate (“**NIBOR**”) represents the short-term lending rates of selected banks in the Nigerian inter-bank market, quoted as annualised rates. NIBOR is a ‘polled’ rate, meaning that a set of selected banks known as “Reference Banks” submit quotes which are processed to give NIBOR.

2. What is the NIBOR Philosophy?

Reference Banks are required to submit rates in answer to the NIBOR question:

“At what rates could you borrow and lend funds, were you to do so by giving inter-bank bids and offers in a reasonable size just prior to 2:00 PM?”

Reference Banks shall submit bid and offer quotes which will be sorted in ascending order. The top 25.00% and the bottom 25.00% will be cut off from both rankings (bids and offers), leaving only the middle 50.00% to be averaged and published as NIBOR. Quotes shall apply to unsecured inter-bank transactions in a “reasonable size”.

“Reasonable size” for the purpose of NIBOR submissions is trade size between ₦2.00bn – ₦5.00bn. Although Reference Banks are advised to use transaction data to anchor their submissions, having a polled rate is crucial to ensuring the continuous publication of such a systemic benchmark, even in times of low liquidity and when there are few transactions on which to base the benchmark.

3. How is NIBOR Determined?

NIBOR is a ‘trimmed arithmetic mean’ of some of the Reference Banks’ submissions. Quotes from outliers (highest and lowest quotes) are removed and the rest is averaged. The result for each benchmark tenor will be derived to four (4) decimal places and published to the market at approximately 2:00 PM daily.

4. How many NIBOR tenors are published?

From April 23, 2014, only four (4) NIBOR tenors: Overnight (O/N), 1 month, 3 months and 6 months will be published in the Newspapers as part of the FMDQ Daily Quotations List (“**DQL**”) and on FMDQ Securities Exchange (“**FMDQ**” or the “**Exchange**”) website.

5. How does FMDQ as the NIBOR administrator ensure the Reference Banks take their responsibilities seriously?

FMDQ has established a NIBOR Code of Conduct which has been executed by each Reference Bank. The NIBOR Code of Conduct guides the behaviour of the Reference Banks. It formalises a proper governance process, with the Reference Banks committing, in writing, to adhere to its content. The NIBOR Code of Conduct states the responsibilities assigned to the relevant administrator and the Reference Bank, with respect to the NIBOR determination process; the eligibility criteria for the

inclusion and exclusion of Reference Banks to the panel of contributors; the processes to determine benchmark rates; which bid and offer rates will be submitted; minimum compliance; internal audit; data archiving and staff training requirements.

6. How would FMDQ ensure NIBOR meets the Principles for Financial Benchmarks issued by the International Organisation of Securities Commissions (“IOSCO”)?

FMDQ aims to ensure NIBOR has three (3) major attributes - credibility, confidence and integrity, by bringing together strong regulatory and governance framework. To this end, FMDQ has established governance steps around the NIBOR submission process by using a new Secure File Transfer Protocol (“SFTP”) service for Reference Banks’ daily submissions of NIBOR. FMDQ will also implement a new post-publication surveillance system; designed and tested to assess the credibility of NIBOR submissions and rates.

Furthermore, FMDQ has articulated and implemented requisite policies and framework addressing internal controls, information security and governance of the NIBOR to ensure the benchmark is in full compliance with the IOSCO principles.

Finally, FMDQ will subject the entire NIBOR process to regular external audits, and the resultant audit reports will be published, in line with the IOSCO principles.

7. What is NIBOR used for?

NIBOR is an essential component of the Nigerian financial system. Its importance is borne from its use as a floating rate index for financial contracts i.e. money market instruments, retail loans, long-dated mortgages, bonds and interest rate derivatives.

8. How do top corporates and banks use NIBOR in pricing floating rate contracts?

A floating rate contact is an investment/loan instrument whose interest payment is tied to some variable (floating) interest rate benchmark. The coupon/interest amount fluctuates according to the rise or fall in the market interest rates. NIBOR was established as a standardised benchmark for the pricing of such floating rate contracts in Nigeria.

The parties to the contract agree on a specific benchmark tenor (e.g. 3-month NIBOR) and the specific day to make reference to the benchmark. On the agreed date, the applicable benchmark rate is used to derive the coupon/interest payment on the contract.

9. What will happen in the event of non-availability of some NIBOR data from Reference Banks?

Under normal conditions, at least 80.00% of the Reference Banks must quote to establish NIBOR. In the highly unlikely event that less than 80.00% of the Reference Banks are able to quote, FMDQ will establish NIBOR as soon as it can collect quotes from at least five (5) Reference Banks and will derive NIBOR by a simple average without eliminating outliers.

If fewer than five (5) Reference Banks have provided data by 2:30 PM, the NIBOR of the previous business day will be republished at 2:30 PM and will be used as the NIBOR for that day. Any republished rates from the previous business day shall be clearly identified as such by FMDQ on the page where NIBOR is displayed.

10. Is NIBOR the only fixing in the Nigerian financial markets?

NIBOR is not the only fixing in the market. NIBOR is the money market benchmark, with two (2) other fixings available for Treasury bills and Foreign Exchange; NITTY – Nigerian Inter-bank Treasury Bills' True Yields and NAFEX – Nigerian Autonomous Foreign Exchange Rate Fixings, respectively.

However, FMDQ, shall from time to time, review the market's need for other benchmarks and introduce same in compliance with international best practices.

11. Where can I find current and historical NIBOR?

Real-time and historical NIBOR is available on the [FMDQ e-Market Portal](#), whilst NIBOR (delayed by 24 hours) can be found at www.fmdqgroup.com.

Should you have further questions regarding these historical data, please contact FMDQ Market Services on +234 1- 2778771 or email – support@fmdqgroup.com

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