





The Central Bank of Nigeria (the "CBN") on 28th March, 2024, issued a circular announcing an upward review of minimum capital requirements for banks in Nigeria thereby mandating them to increase their capital base. The CBN in that circular proposed various capital-raising options including rights issue, private placement, offer for subscription as well as merger and acquisition.

However, for the process of capital raising to be transparent and efficient and to ensure that banks comply with the CBN directive which has a deadline of 31st March, 2026, the Securities and Exchange Commission (the "SEC") which is the regulatory body overseeing capital market operations in Nigeria on 21st June, 2024, unveiled a framework to aid the capital raising exercise.

This article will examine the Framework of the SEC on the recapitalization of the banking sector and steps that banks in Nigeria are expected to follow to raise capital during the 2024-2026 recapitalization period.

THE SECURITIES AND EXCHANGE COMMISSION ON BANK RECAPITALIZATION

In response to ongoing internal and external macroeconomic challenges and shocks, the CBN mandated a recapitalization program for banks to enhance their asset base and support economic growth, in line with the Federal Government's target of aiming for a US\$1 trillion economy by 2030. The CBN in its upward review of minimum capital requirements for commercial merchant and non-interest banks in Nigeria provided as follows;

Type of Bank	Authorization	Minimum Capital (N' Billion)
Commercial	International National Regional	500 200 50
Merchant	National	50
Non-interest	National Regional	20 10

¹ https://sec.gov.ng/framework-on-banking-sector-recapitalisation-programme-2024/

The various methods to raise capital provided by the CBN in its circular include;

- 1. Rights Issue: This is a method by which companies in this instance, banks raise additional capital by offering existing shareholders the right to purchase additional new shares, usually at a discount. The banks can create new shares worth the amount needed to meet the minimum capital requirement and offer the same to shareholders to buy thereby generating capital for the bank.
- 2. Public Offer (offer for subscription): This is a method by which companies, in this instance, banks raise capital by inviting the public to subscribe for new shares. The banks can create new shares worth the amount needed to meet the minimum capital requirement and offer the same to the public.
- **3. Private Placement:** This is a method of raising capital in which securities are sold directly to a small group of investors rather than public offering on the open market. The additional shares created can be issued via this method.
- **4. Merger and Acquisition:** These are processes in which companies consolidate through various forms of financial transactions. Banks can merge or acquire another bank to meet this minimum capital requirement.

The capital market plays a crucial role in this process, as banks are expected to utilize these processes to raise necessary funds or engage in various business combinations. Thus, the SEC, responsible for regulating and developing the Nigerian capital market, must ensure that the capital-raising process is smooth, transparent, and efficient. Hence this Framework issued by the SEC on recapitalization outlines the guidelines and procedures banks are required to follow to

raise capital through rights issuance, private placements, or other approved methods during the 2024-2026 recapitalization period.



AN EXAMINATION OF THE FRAMEWORK

The objective of the Framework includes assisting banks, holding companies, and market participants in navigating the recapitalization programme effectively, ensuring the capital raising process is efficient, transparent, and protecting stakeholders' interests.

Further, the Framework helps guide banks, holding companies, and capital market operators in filing applications process for capital raises or mergers and acquisitions, to ensure full disclosure of material facts in compliance with the Investments and Securities Act 2007 and relevant regulations and to ensure proper and timely review of transactions. It also stated capital raising options as well as procedures for registration. The Framework provides that applications and documents are to be filed electronically offerapplications@sec.gov.ng. documents submitted would be reviewed and if deficiencies are found it would be communicated applicants to the electronically and it resets the timeline.



However, if there are no deficiencies, the application will be approved and communicated to the applicant. If an application is returned due to being incomplete, a penalty of N1,000,000 and a re-filing fee of N100,000 will be imposed. This fee must be paid by the Issuing House and cannot be charged to the Issuer or deducted from the Issue proceeds.

The Framework makes provision for documentation required and applicable fees where necessary when filing for the registration of distribution of securities through Initial Public Offer (IPO), offer for subscription, rights issues, and private placements, the executed offer documents, proposed basis of allotment, mergers & acquisitions, and formal approval for mergers.

Another requirement of the Framework is that an affiliate registrar to a bank or its holding company is prohibited from maintaining a register of shareholders for the bank or its holding company, and prohibited from acting as the Registrar for any offer in which the bank or the holding company is the issuer.

According to the Framework, the allotment proposals require a capital verification report from the CBN for approval, a mandatory Bank Verification Number (BVN) for all applicants, as no preferential allotment will be made, and banks and their holding companies are encouraged to raise capital through a registered e-offering platform provided by a Securities Exchange.

Further to this Framework, subscribers without internet or mobile devices can subscribe through registered receiving agents. The Framework also provided an indicative timeline for capital raising and merger and acquisition and a checklist for minimum documentation required to support capital raising application, merger and acquisition application, and formal approval of a merger.

CONCLUSION

As the regulatory body overseeing Nigeria's capital market operations, the SEC's comprehensive duty is to ensure that the capital raising process is efficient and transparent, thereby boosting investors' confidence. When investors observe a welldefined framework governing the bank recapitalization process, they confidence in the process, knowing that securities issuance follows established procedures in line with the SEC and CBN directives. This Framework will aid in the smooth operation of banks in raising capital achieving the minimum capital requirement set by the CBN.

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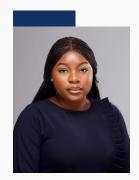
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