



CENTRAL BANK OF NIGERIA

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CIRCULAR TO ALL BANKS

DEFINITION AND STRUCTURE OF HOLDING COMPANIES IN PURSUANCE OF THE NEW BANKING MODEL

Following the repeal of the Universal Banking Guidelines by the Central Bank of Nigeria in pursuance of one of its objectives of promoting a sound financial system, it was deemed necessary to expound upon the licencing requirements for commercial, merchant and specialized banks, with the aim of providing clarity on the conduct of banking business.

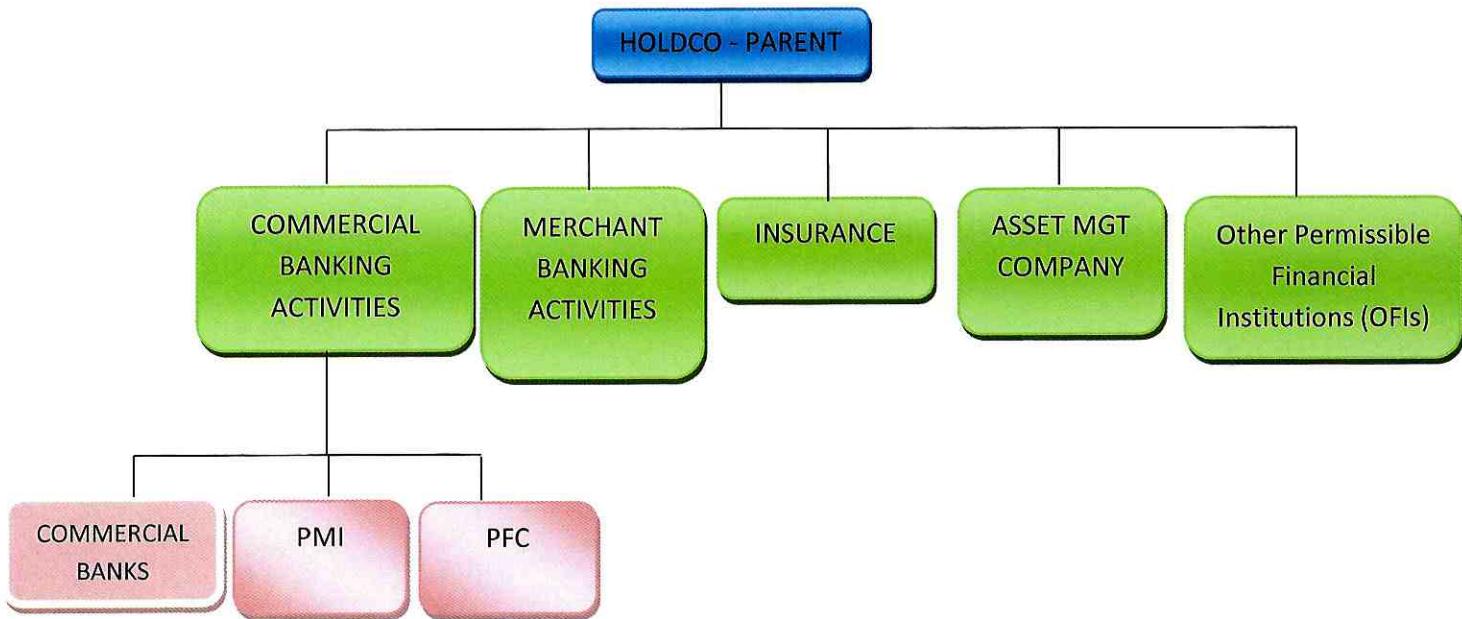
Consequently, in exercise of its powers under Section 57 (1) of BOFIA, and other enabling powers in that regard, it issued the Regulation on the Scope of Banking Activities & Ancillary Matters, No. 3, 2010 (Regulation 3).

In the light of enquiries from various stakeholders, it was deemed necessary to issue this circular to define the Holding Company structure as envisaged in the Regulation 3.

As a general rule, a Holding Company (HoldCo) is defined as "any corporation that owns controlling shares in another company (subsidiary) or companies (subsidiaries) to influence decision making process". Under Regulation 3, it is expected that banks will adopt a financial holding company which can be defined as "other financial institution" licensed and regulated as such by the Central Bank of Nigeria for the purpose of making and managing, (for its own account), equity investments in companies engaged in the provision of financial services.

The nature and characteristics can be derived from the definition above.

The structure is as shown in the example below:



A financial HoldCo must be registered with the Corporate Affairs Commission as a Holding Company. The Incorporation documents must state and list the subsidiaries as well as the nature of business engaged in by the subsidiaries. The CAC registration must conform with Regulation 3 establishing the New Banking Model.

A non-operating financial HoldCo must control at least one bank or other financial institution. Control is gauged by the holding of more than 50% of the voting shares of the subsidiary by the financial HoldCo. The only income stream for the non-operating financial HoldCo shall be dividend plus service fees, as appropriate, from the subsidiaries under the structure. However, a non-operating financial HoldCo is at liberty to transform to an operating financial HoldCo. In so doing, it must amend its Memorandum of Association (MEMART) and re-file same with the Corporate Affairs Commission (CAC) and other relevant regulatory authorities. It must also obtain the prior approval of Central Bank of Nigeria.

A HoldCo within another HoldCo structure may be permissible, under Regulation 3, with the prior approval of the CBN. However, all commercial banking activities whether offshore or onshore must come under the commercial banking subsidiary.

This circular is for your guidance and direction.


C. O. CHUKWU

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