



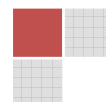
Central Bank of Nigeria

**GUIDELINES FOR
GRANTING LIQUID ASSET
STATUS TO STATE
GOVERNMENT BONDS**

April 14, 2010

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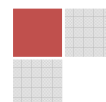


1.0 INTRODUCTION

State governments as agents of development are saddled with responsibilities that are sometimes beyond their resources, given the level of economic development in the country. The recourse to the capital market to fund projects, especially of long gestation periods, should therefore be encouraged as this will not only improve the socio-economic well being of the people but also deepen the capital market.

It is believed that conferring liquidity status on state government bonds would promote investments in these securities, encourage the regular issuance of the bonds by state governments, stimulate primary and secondary market activities and facilitate the development of the Nigerian capital market.

It is in light of the foregoing that the Central Bank of Nigeria (CBN), on March 2, 2010, decided to confer liquid asset status on eligible state government bonds in accordance with the CBN Act (2007). The CBN hereby issues the following Guidelines to operationalize the decision.



2.0 ELIGIBILITY CRITERIA

2.1 Enabling Legislation

The issuance of bonds shall be backed by a law enacted by the State Assembly, specifying that a Sinking Fund fully funded from the consolidated revenue fund account of the issuer be established.

2.2 Fiscal Responsibility Law

The state government shall have in place a fiscal responsibility law, with adequate provisions for public debt management, in order to enhance investors' confidence in the issuer.

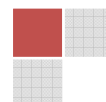
2.3 Credit Rating

The state government shall have a credit rating at inception and throughout the tenor of the bonds. The credit rating shall be determined by a rating agency registered or recognized by the Securities and Exchange Commission (SEC).

2.4 Utilization of Proceeds

The proceeds of the bond issue shall be strictly disbursed to the projects they were meant for and execution shall be monitored by the SEC. In addition, for outstanding bonds, a SEC confirmation shall be required.

2.5 Irrevocable Standing Payment Order (ISPO)



The issuer shall provide an ISPO which shall be payable out of the Statutory Allocation of the state Government and shall be deductible at source. The ISPO shall be approved by the State Assembly.

2.6 Sinking Fund

The issuer shall maintain a fully-funded Sinking Fund to be managed by a Trustee registered by the SEC.

2.7 State Debt Management Departments

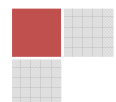
The State Government shall establish a debt management department in order to enhance transparency and the professional management of debt issues.

2.8 Tenor of Bonds

The state government bonds shall be limited to a minimum maturity of seven years in order to be considered for liquid asset status.

2.9 Other Requirements

The state government bonds shall comply with all the relevant provisions of the Investment and Securities Act (ISA 2007) including amendments thereto as well as SEC's rules as may be prescribed from time to time.



3.0 REPURCHASE TRANSACTIONS

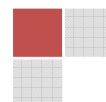
- 3.1 State government bonds which meet the criteria for liquid asset status shall be eligible for repurchase or “repo” transactions and the CBN shall open an account with the Central Securities Clearing System (CSCS) Limited to warehouse the securities.
- 3.2 The collateral provided by counterparties towards the repo shall have a “haircut” applied. This haircut reflects the underlying risk of the collateral.

4.0 RISK WEIGHTS FOR CAPITAL ADEQUACY RATIO

- 4.1 For the purpose of computing the capital adequacy ratios of banks and discount houses, state government bonds with liquid asset status shall be assigned a weight of 20 percent or as may be prescribed by the CBN from time to time.

5.0 INVESTMENT LIMIT

- 5.1 Banks shall not invest more than ten percent of shareholders’ funds in bonds issued by a single state government.



- 5.2 In order to be eligible for liquidity ratio determination, the value of state government bonds in a bank's portfolio shall not exceed fifty percent of the value of the bank's investment in FGN securities.

6.0 CEILING ON LENDING TO SUB-NATIONAL GOVERNMENTS

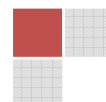
- 6.1 State government bonds granted liquid asset status shall not be included in the computation of the 10 percent ceiling on lending to all tiers of government as specified in the CBN's Circular reference BSD/DIR/GEN/CIR/03/011 dated June 26, 2009.

7.0 APPLICATION PROCEDURE AND OTHER MATTERS

- 7.1 These guidelines shall apply to both previously issued state government bonds and new issues of state government bonds.
- 7.2 State governments seeking liquid asset status for their bonds shall apply to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja, through their financial advisers.
- 7.3 The CBN shall regularly publish, on its web site, state government bonds that qualify for liquid asset status.

8.0 REVIEW OF THE GUIDELINES

These guidelines shall be reviewed from time to time.



Glossary of Terms

1. **Bond** – A debt instrument with a maturity greater than one year.
2. **Irrevocable Standing Payment Order (ISPO)** – A written mandate given by the issuer (State government) of a bond to the Accountant General of the Federation (AGF) authorizing the AGF to deduct, at source, predetermined sums of money from the statutory allocation of the issuer.
3. **Issue date** – The date on which a bond is issued.
4. **Maturity date** – The date on which a bond becomes due and payable.
5. **Primary Market** – The market for new issues of debt instruments.
6. **Secondary Market** – The market where previously issued instruments are traded.
7. **Sinking Fund** – A fund into which an issuer sets aside money over time, in order to retire its debt instruments.