

Vol. 23 - December, 2016



INSIDE THIS ISSUE:

- ❖ Legal Quotes
- ❖ Featured Articles:
 - Treasury Bills in Nigeria: The Basics
 - Loan Syndication: Impact on the Nigeria Economy
- ❖ News Update
- ❖ Jokes

LEGAL QUOTES

- Law and order exist for the purpose of establishing justice and when they fail in this purpose they become the dangerously structured dams that block the flow of social progress.

Martin Luther King Jr. (1929-1968)

- Laws and institutions, like clocks, must occasionally be cleaned, wound up, and set to true time.

Henry Ward Beecher (1813-1887)

TREASURY BILLS IN NIGERIA: THE BASICS

Kenneth Jim

Introduction

A period of economic recession as Nigeria is currently experiencing can be an ideal time

to invest in profitable ventures and reduce waste. As a matter of fact, a recession can be the best possible time to begin investing because asset prices often fall, thereby presenting a rare opportunity for one to get stocks, bonds, real estate, private businesses, among others for far less.

In Nigeria, one of the safest investment opportunities available across the country is

investing in Treasury Bills. This is because Treasury Bills by its nature is the most liquid money market security and is backed by the guarantee of the Federal Government.¹ They are considered one of the most secure investments to make. The objective of this article therefore is to analyse Treasury Bills and how it works in Nigeria.

Treasury Bills

Treasury Bills are short-term debt instruments issued (usually for tenors of 91 days, 182 days and 364 days) by the Federal Government through the Central Bank to provide short term funding for the government.² But unlike other debt instruments, Treasury Bills do not yield interests over time; rather, they are issued at a discount on the redemption price.

Essentially, the Federal Government issues treasury bills at discounted prices for maturity periods between 91 and 364 days at the end of which government buys the bills back at full price.³ For instance, where an investor buys a 364-day ₦1,000,000 treasury bill at a discounted rate of ₦820,000, the Federal Government of Nigeria writes an

IOU⁴ for ₦1,000,000 and agrees to pay back in 364 days. The investor will not get any monthly interest; rather the investor will make his money back when the bond is purchased back at full price. In this case the Treasury Bill pays 18% interest rate over the 364 day period.

Purchasing Treasury Bills

According to CBN, Treasury bills can be purchased both at the primary and secondary markets.

The primary market is where new issues of securities are available for sale. The market for new issues in all government securities is the Issues Office, Central Bank of Nigeria. Secondary market is a market for the trading of previously issued securities. Hence, tenors of the securities traded are shorter than the original tenors. In the case of Treasury Bills, the market is within and outside the Central Bank of Nigeria. The market in the CBN is located at the Securities Dealing Office and Settlement and Control Office, while the outside markets include banks and discount houses.⁵

The procedure for investing in Treasury bills in the Secondary market is through the Open Market Operation (OMO). All investments

¹Diamond Bank; *Treasury Bills*, available online at <http://www.diamondbank.com/business/invest/treasury-bills/> Accessed on December 2, 2016

² Ibid

³ *How to invest in Treasury Bills in Nigeria*, available online at <http://www.mrpepe.com/banking/how-to-invest-in-treasury-bills-t-bills-in-nigeria/> Accessed on December 5, 2016

⁴ The term IOU is the phonetic spelling of the phrase "I Owe You." In accounting, it signifies an informal acknowledgment of an outstanding debt

⁵ Omodele Adigun; *How to invest in Treasury Bills*, published online at <http://sunnewsonline.com/how-to-invest-in-treasury-bills/> Accessed on December 2, 2016

are through auctions. Notice, inviting bids, is forwarded to licensed discount houses and banks a day preceding the auction. Subscriptions are open to the general public, that is, banks/discount houses, government agencies, corporate bodies institutions and individuals. All applications must, however, be routed through licensed discount houses.⁶

In buying Treasury Bills, the investor will be required to complete an application form issued by a commercial bank or an approved discount house and submit same. The submission should be done early, as most banks are required to submit applications received by the Wednesday before the dates announced by the Central Bank of Nigeria.⁷

Although it is advisable to wait till maturity before selling your Treasury Bills, an investor who has an urgent need for funds can sell before maturity through the Over the Counter (OTC) market. However since this is governed by the forces of demand and supply, the investor might make a loss for choosing to sell before maturity date.

Conclusively, below are some of the advantages of investing in Treasury Bills:

- a) It is a risk free investment as it carries the guarantee of the Federal Government.
- b) Income on investment is realizable upfront.

- c) Treasury bills are highly liquid instruments and can be used as collateral.
- d) Liquidity-active secondary market for ease of entry and exit (though at a cost).
- e) Interest earned is tax-free.⁸

LOAN SYNDICATION: IMPACT ON THE NIGERIA ECONOMY

Osiri Ndukwe

Introduction

For an economy to develop there must be viable investment opportunities. In the early years of banking operations in Nigeria, banks were giving loans mainly on individual basis. However, as the economy developed, more investment opportunities opened up, industrialists started demanding large sums of money, which were provided by banks on medium or long term basis. Due to the restrictive policies in the banking industry in Nigeria, coupled with the attached risk, it became difficult for banks to meet up with the quantum of loans demanded by customers.

Against this background, banks came together to form what is known as “Consortium” with the aim of advancing loans - loan syndication. Thus, this paper will examine the extent to which loan

⁶ Ibid

⁷ *How to invest in Treasury Bills in Nigeria* (Supra)

⁸ Diamond Bank; *Treasury Bills* (Supra)

syndication has contributed to the growth of the Nigeria economy.

Meaning of Loan Syndication

According to Oxford Dictionary, syndication is a group of people or business companies combined to pursue a common interest.⁹ It has also been defined as “the art and process whereby a group of financial institution is raised to provide credit facilities to a borrower under common agreement terms and single loan documentation”.¹⁰

In loan syndication there are mainly two parties, the lender and the borrower. The lender is comprised of the lead bank, the participating banks and the agents, while the borrower is the company that needs the loan.

Procedures for Syndicating a Loan

The process of syndicating a loan may be classified into three (3) main phases, namely¹¹:

- 1) The contact or mandate stage: A prospective loan applicant draws up its credit requirements and the most suitable package that would maximize its expected utility. These catalogues of requirements are presented to a bank or banks that can help in procuring the desired credit. If the loan request is in excess of the bank’s lending limits, rather than commit itself to the total amount demanded or reject the loan application due to portfolio constraints, the bank may suggest to the loan applicant that the desired credit be raised through a syndicate. Having satisfied itself that the project is feasible and viable, the bank will state the terms and conditions for syndication. An acceptance of this by the loan applicant confirms the mandate to syndicate the facility¹².
- 2) The contractual or documentation stage: This stage gives legal effect to the syndication of the loan and the various agreements reached. The lead bank arranges the drafting of all the legal documents to bind all the parties.

⁹Oxford Advanced Learner’s Dictionary (Special Price Edition) 9th edition

¹⁰Obanla, O.B.A (September 25, 2001): *Loan Syndication in the Nigerian Money Market*, available at <http://articlesng.com/loan-syndication-alternative-business-finance-nigeria/>, accessed on Wednesday, December 7, 2017

¹¹Nwankwo, G.O. (1996): *The Nigerian Financial System London. Macmillan Publishers Ltd.*, available at <http://www.iiste.org/Journals/index.php/DCS/article/viewFile/23800/24371>, accessed on Wednesday, December 7, 2017

¹² Macdonald, R.P. (1995): *International Syndication of Loans. London Croon Helm Ltd.*, available at <http://www.iiste.org/Journals/index.php/DCS/article/viewFile/23800/24371>, accessed on Wednesday, December 7, 2017

3) The credit administration stage: This essentially is the process of managing the loan amount and its execution.

Impact on the Nigerian Economy

Through loan syndication, financial institutions have continued to support the industrialization policy of the government including economic growth and reduction in the level of unemployment. Syndicated facilities are often medium to long-term end.

Loan syndication is an economically beneficial method of transforming mobilized funds into real capital because without it, some viable investment opportunities might be lost for lack of preparation on the part of any one bank or financier to finance the investment alone.

Hence, loan syndication enhances the investment and the economy's productive capacity by promoting the flow of funds into the industry and other priority sectors of the economy. This has reduced the rate of project failures and mitigated the number of abandoned projects in Nigeria.

Loan syndication saves the borrower the pains of raising independently from different institutions having to prepare costly separate documentations for each little credit and negotiating one to one the different lender's terms and conditions. Thus, it helps in saving

precious time and allocation of the scarce resources with a little waste.

The industrialization policy of the government demands large capital outlay and such funds can only be made available either through government grants or syndicated loans from financial institutions.

Between 2004 and 2005, First Bank led a syndication of \$185m for the acquisition of Global System for Mobile Communication (GSM) license by Nigerian Telecommunications Limited (NITEL) \$72m for NITEL expansion¹³. In 2005, it led a syndication of \$60b to Dangote Group.

No doubt the coming of GSM into Nigeria has contributed largely to the development of the economy, of which if there was no syndicated loan to assist NITEL, the level of development in the telecommunications sector would have been far more behind the current situation.

Banks are strong partners in the growth of any economy and the returns made from successful loan syndication assist in stabilizing its presence in Nigeria, which in turn benefits the economy.

¹³Echekoba F.N: *Impact of Loan Syndication on the Nigerian Economy*, available at <http://www.iiste.org/Journals/index.php/DCS/article/viewFile/23800/24371>, accessed on Wednesday, December 7, 2016

Conclusion

Loan syndication in my opinion appears to be the easiest and quickest way of lending large amounts to borrowers by financial institutions without violating regulations. Although loan syndication has its own challenges, it has come to stay. This is because it is a potent source of finance to big time industrialists, which also benefits banks. So, it's a win-win for all the parties involved.

JOKES



NEWS UPDATE

Corruption charges: Court shifts arraignment of Justice Ademola, wife to December 13, 2016

An Abuja High Court at Maitama has deferred the arraignment of Justice Adeniyi

Ademola of the Abuja Division of the Federal High Court and his wife, Olabowale, who are facing corruption charges, till December 13, 2016.

The planned arraignment of the duo on Monday December 5, 2016, was stalled by inability of the Federal Government (FG) which is prosecuting them, to serve copies of the charge on the Defendants. Government lawyer, Mr. Segun Jegede told the Court that attempts by the bailiff to serve the charge on Justice Ademola last week proved abortive as he was told that the Defendant travelled to Lagos.

Jegede said he wanted to apply for an order of substituted service before the defence lawyer, Mr. Jeph Njikonye, expressed his willingness to accept the charge on behalf of his clients pursuant to section 382(5) of the Administration of Criminal Justice Act, which allows a lawyer to receive charge for a Defendant. The prosecution counsel stressed that section 390 of the ACJA provides for a minimum of seven working days before the date certified on the notice, for the defendants to appear for trial. Besides, FG, applied to withdraw an initial 15-count charge dated November 14, saying it had on December 1, entered an amended 11-count charge against the defendants. Meanwhile, the defence lawyer did not oppose FG's request to withdraw the initial charge. The Court by a bench Ruling struck out the initial charge.

The court said there was an affidavit of none service deposed to by the bailiff who stated that his attempt to serve the defendants on December 2, 2016 proved abortive, as he was told that the defendant travelled to Lagos. Consequently, the court, by consent of the parties, adjourned the matter till December 13 for arraignment.

Read more at:

<http://www.vanguardngr.com/2016/12/corruption-charges-court-shifts-arraignment-justice-ademola-wife-dec-13/>

Abia gov tussle: Appeal court declines judgment on Nwosu, Ikpeazu's suit

A five-man panel of the Court of Appeal sitting at Owerri Division, has declined judgment on the appeal, CA/190/ 2016, filed by Sir Friday Nwosu against the July 8, 2016 judgment of the Federal High Court, Owerri, delivered by Justice Ambrose Allagoa, which cleared Governor Okezie Ikpeazu of alleged submission of forged tax documents and false information.

Presiding judge, Justice R. C. Agbo, held that his panel could not hear and decide Nwosu's suit in view of the appeal, SC/739/2016, Sir Friday Nwosu vs Uche Ogah, PDP, Okezie Ikpeazu and INEC, pending at the Supreme Court. Other members of the panel, Justices J.O.K.

Oyewole, Muhammed L. Shuaibu, Joseph E. Ekanem and Muhammed Mustapha, agreed with the ruling

Counsel to the 1st respondent in the suit, PDP, Dr. Livy Uzoukwu, SAN, had asked the Court to suspend hearing on the matter because one of the appeals filed by Nwosu at the Supreme Court was similar to the suit before the Court of Appeal. But Nwosu's lead Counsel, Frank Unyimadu, stated that Nwosu's appeal at the Supreme Court was in respect of abuse of court processes which the 4th respondent in the suit, Dr. Uche Ogah, had committed by being a defendant in Nwosu's suit, and allegedly photocopied documents and exhibits served on him by Nwosu to file another suit. Arguing further on the differences between the two appeals filed by Nwosu at the Supreme Court and the Court of Appeal, Unyimadu who agreed that the main issue for determination remained who was the lawful candidate of the PDP in the 2015 governorship election in Abia State, described Ogah's suit as incompetent, stressing that he failed to serve Nwosu even when the Federal High Court ordered him to do so which rendered his suit an abuse of court process.

Counsel to the 2nd (INEC), 3rd (Dr. Okezie Ikpeazu) and 4th (Dr. Uche Ogah) respondents, Jude Nnodum, SAN, Theo Nkire and O.J. Nnadi, SAN, respectively, agreed with the submissions of the PDP counsel, Dr. Livy Uzoukwu, SAN, that the

suit filed by Nwosu at the Court of Appeal was similar to the one he also filed at the apex court

Read more at:

<http://www.vanguardngr.com/2016/12/abia-gov-tussle-appeal-court-declines-judgment-nwosu-ikpeazus-suit/>

UK Supreme Court to hear historic Brexit case

The government of Prime Minister Theresa May will on Monday seek to overturn a ruling that it must obtain parliamentary approval before triggering Brexit, in a highly-charged case in Britain's highest court.

For the first time ever, all 11 Supreme Court judges will convene for the four-day hearing which threatens to upset May's timetable for leaving the European Union.

The High Court ruled last month that the government did not have the executive power alone to invoke Article 50 of the European Union's Lisbon Treaty, formally starting the exit negotiation process.

The decision enraged Brexit supporters and some newspapers who accused judges of thwarting the will of the 52 percent who voted "Leave" in a June 23 referendum.

A parliamentary vote on Article 50 could open the door to pro-Europe lawmakers delaying or softening Britain's withdrawal from the bloc.

May's government will set out its case Monday in an appeal of the High Court decision, with a verdict expected in January.

Attorney General Jeremy Wright, the government's chief legal advisor, will argue that the government has constitutional authority over foreign affairs, including the right to withdraw from treaties, under so-called "royal prerogative powers".

– Referendum a 'footnote' –

In papers submitted to the Supreme Court ahead of the hearing, Wright said High Court judges were "wrong to relegate, almost to a footnote, the outcome of the referendum".

Claimants in the case, led by investment fund manager Gina Miller, argue that triggering Article 50 would strip British citizens of certain rights established under European law — which they say only parliament has the power to do.

Britain's foreign minister, Boris Johnson, voiced confidence in the government's case Sunday, telling the BBC's Andrew Marr Show: "There is no history in any EU negotiations or any EU treaty talks of the House of Commons doing anything to fetter the discretion of the government."

However, legal expert Michael Zander, a professor at the London School of Economics and Political Science (LSE), said the government had little chance of winning, describing the original ruling as “unanimous and very strong”.

Read more at:

<http://guardian.ng/news/uk-supreme-court-to-hear-historic-brexite-case/>

Acting CJN charges judges to defend judiciary’s integrity

Acting Chief Justice of Nigeria (CJN), Justice Walter Onnoghen has charged judges to be above board and defend the integrity and independence of the Judiciary in the discharge of their duties.

Justice Onnoghen noted that the failure to defend the third arm of government would mean failing the citizens who have placed their hope in the judiciary for fair and equitable dispensation of justice. He gave the admonition on Monday December 5, 2016, when he administered the oath of office on two newly-appointed Justices of the Supreme Court, Justices Paul Galinje and Sidi Bage. A month ago, two new Justices were also sworn-in on the bench of the apex court. They are Justices Amina Augie and Ejembi Eko.

Congratulating the new Justices on their elevation, Justice Onnoghen charged them to strive at all times to be faithful to their oath of office and allegiance.

Meanwhile, Onnoghen has called for a close working relation between the media and the Judiciary for the survival and development of a mature democracy.

Speaking at the opening ceremony of the 2016 workshop for Judiciary Correspondents, in Abuja, on December 5, 2016, Justice Onnoghen noted that a free press is the most potent evidence of a mature democratic government.

“In countries with enduring democracy, freedom of the press is usually upheld as a veritable tool in shaping opinions and influencing policies. It also acts as an effective check on the excess of government by highlighting it’s shortcomings in meeting it’s statutory obligations as well as in its achievements.”

Onnoghen was optimistic that given its freedom, the press can bears the brunt of speaking the truth adding that this will occasionally bring it into divergence with various arms of government.

On the independence of the judiciary, the Acting CJN said it was important in order to preserve and protect it integrity.

“The judiciary is the foundation of the rule of law in any society. If that foundation is

threatened in any way, including threat to its independence, there cannot be a viable democracy.

“Therefore, for our evolving democracy to be fully entrenched and enduring, the press must partner with the judiciary in the performance of this very crucial role. The press must be in the forefront of educating the public on the workings of our courts and our justice delivery system.”

Read more at:

<http://sunnewsonline.com/cjn-charges-judges-to-defend-judiciarys-integrity/>

This Newsletter and/or its contents is not intended as and does not constitute legal advice. It is only a source of information



11C, AyindeAkinmade Street
Off Admiralty Way, Lekki Phase 1
P.O. Box 75889, Victoria Island, Lagos
Tel: +234 1 4547857

RAVENS

NOTE: We hope you enjoy our newsletters and find them useful. If you would however like to unsubscribe to our mailing list, kindly indicate by sending an email titled “UNSUBSCRIBE” to: info@starklegalng.com & ondukwe@starklegalng.com. Thank you.

RAVEN