# CBN CIRCULAR ON CASH POOLING BY INTERNATIONAL OIL COMPANIES: ROADMAP TO ENSURE LIQUIDITY STABILITY

On February 14, 2024, the Central Bank of Nigeria ("**CBN**") issued a Circular titled '*Requirements for Foreign Currency Cash Pooling on Behalf of International Oil Companies ("IOCs") in Nigeria*' to all authorized dealer banks in Nigeria (the "**Circular**").

Through the Circular, the CBN has noted that IOCs use cash pooling arrangement with their parent companies to keep foreign exchange ("**FX**") earnings abroad. According to the CBN, this has impacted liquidity of FX in the domestic market. Consequently, the CBN aims to regulate how IOCs repatriate oil sale revenue into Nigeria in compliance with our extant laws, while the IOCs can enter a cash pooling arrangement with their parent companies.

Consequently, the CBN has directed all authorized dealer banks to pool cash on behalf of IOCs subject to (i) fifty per cent (50%) of the repatriated export proceeds in the first stance, and; (ii) the balance of fifty per cent (50%) may be repatriated from Nigeria after ninety (90) days from the date of inflow of the export proceeds. The authorized dealer banks are expected to comply with this directive subject to satisfaction of certain conditions:

a. Prior approval of the CBN for the repatriation of funds under a cash pooling agreement;
b. Evidence of a cash pooling agreement with the Nigerian entity;
c. Statement of expenditure incurred by the IOC in the immediate past period relating to the cash pooling arrangement;
d. Evidence of source of FX inflow; and
e. Completion of relevant FX forms.

## WHAT DOES THIS MEAN?

Large corporate groups with subsidiaries in different countries often engage in 'Cash Pooling' by managing a centralized bank account(s) into which the assets and liabilities of the subsidiaries are recorded regularly, usually on a daily basis. The parent company acts as a central strategic unit that distributes liquidity to better serve the interests of each subsidiary. As a result, a daily set of automatic inter-company loans optimizes the group's global position through a single balance by each cash pooling bank. When a company within the group needs funds, it can borrow from a sister company with cash surplus through the centralized bank account(s).

The Circular re-affirm the provisions of Foreign Exchange Manual[1] ("**Manual**") and Section 10 of the Pre-Shipment Inspection of Exporters Act[2], which provides that "*exporters of goods especially petroleum products shall open, maintain and operate a foreign currency domiciliary account in Nigeria into which shall be paid all exports proceeds corresponding to the entire proceeds of the exports concerned*".

The intent of the CBN is to boost local FX availability without deterring foreign investment and cash flows, balance increased FX repatriation by IOCs and improve FX liquidity in Nigeria. If this policy is properly implemented, it would increase influx of FX in Nigeria and help stabilize the Nigerian Naira.

1. Memorandum 10 (20) of the Manual retrieved at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.stanbicibtcbank.com/static_file/Nigeria/nigeriabank/Business/Products/Specialised%20services/PAPSS/Teasers%20and%20Title/Revised%20foreign%20Exchange%20Manual.pdf accessed on 16022024.
2. CAP P.25 Laws of Federal Republic of Nigeria, 2004

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