

# **CBN Directive on Form M**

**All enquiries should be forwarded to:**

The Economic Intelligence Group  
Access Bank Plc  
14/15 Prince Alaba Abiodun Oniru,  
Victoria Island, Lagos  
T: 01-2712005-7, 0700 300 0000  
E: [economicIntelligence@accessbankplc.com](mailto:economicIntelligence@accessbankplc.com)



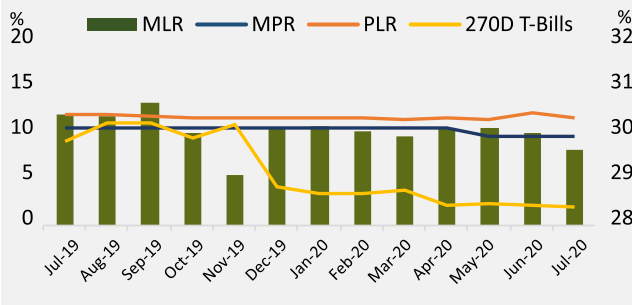
**more than banking**

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# Macroeconomic Update

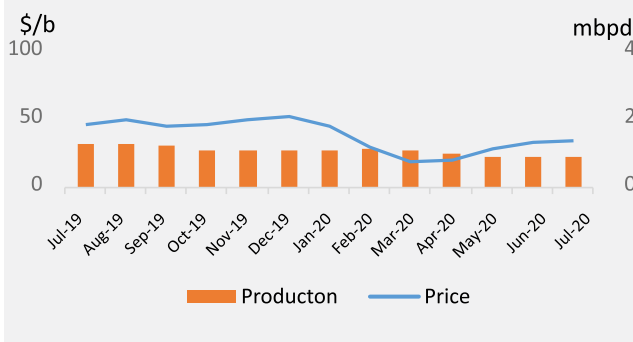
## - October 2020

### MLR, MPR, PLR



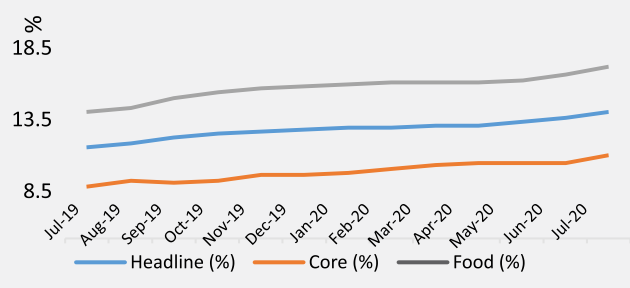
- The Monetary Policy rate (MPR) was cut to 11.5% in September 2020 from 12.5% in August 2020.
- The asymmetric corridor around the MPR was also adjusted to +100 and -700.
- This decision was informed by the impact of the Covid-19 pandemic on the economy and need to stimulate cheaper lending to businesses.
- The 270-Day Treasury Bills (T-Bills) rate maintained its downward trend, dropping further to 1.96% in September from 2.28% in August.

### Crude Oil Price



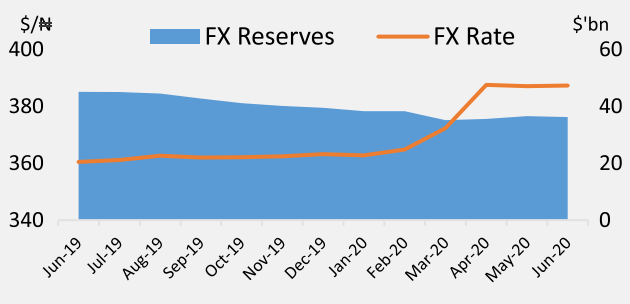
- Bonny light oil price declined by 4.6% in September 2020 falling to \$42.29 per barrel from \$44.33 posted in the previous month.
- Oil production dropped to 1.48 million barrel per day (mbpd) in August 2020 from 1.49 mbpd in the previous month.
- Dependence on the oil sector will leave the nation's treasury account vulnerable to swings in commodity prices, and progress in developing alternative sources of revenue is likely to remain slow.
- Lower government spending impacts negatively on business operations.

### Inflation Rate



- Inflation rose to 13.22% in August 2020, the highest in 29 months.
- This came on the back of continued border closures, impact of Naira depreciation and the lingering effects of coronavirus-induced supply disruptions
- Year-on-Year prices rose mostly for food items reaching 16% relative to 15.48% in July with core inflation also rising to 10.52% from 10.1% recorded in the previous month.

### FX Reserves, FX Rate



- External reserves currently sits at c.\$35.7bn as at 30th of September 2020, which is \$2.8bn lower than the start of the year as demand for the forex, as well as capital flight continue to pressure the reserves.
- The Naira appreciated in September 2020 as ₦/\$ settled at ₦385.8/\$ from ₦386.69/\$ in the previous month at the NAFEX window, reflecting a ₦0.89 decrease.
- The external reserves while lower than figures seen in 2019 can cover more than 3 months import cover.

## Directive on Form M Issuance

"As part of continued efforts of the CBN to ensure prudent use of the foreign exchange resources and eliminate incidences of over-invoicing, transfer pricing, double handling charges and avoidable costs that are ultimately passed to the average Nigerian consumers, authorized dealers are hereby directed to desist from opening Form 'M' whose payment are routed through a buying company, agent or any other third parties".

### Key View

The Central Bank of Nigeria (CBN) in a circular "Destination Payment for All Forms M, Letters of Credit and other Forms of Payment" released on August 24<sup>th</sup>, 2020 wants to mollify one of the potential sources of forex leakages by limiting forex transactions to occur between local Nigerian businesses and their respective Ultimate Product Supplier (UPS), without any third-party involvement that is eliminating the services of Buying Companies (BC) or agents. This new directive has raised concerns in the manufacturing and trading industries as they perceive it to be harmful to their businesses, as their supply chains would be disrupted.

### Further Insights on the Form M Directive

- One of the main aims of the current fiscal administration is to improve the ease of doing business in Nigeria.
- While the CBN's objective of limiting forex leakage to the barest minimum is key to a better Nigerian macroeconomic environment, the new directive on Form M issuance poses a threat to the operations of many domestic businesses.
- Some analysts view this directive as replacing the global supply chain disruption, caused by the COVID-19 pandemic, with a domestic supply chain disruption.
- Analysts at Andersen Tax believe that the way forward is TRANSFER PRICING. This provides the CBN an assurance that no over-invoicing or mispricing has occurred.
- The Form M directive should be given an all-inclusive review, so that an agreement on the mutual benefit to the CBN and domestic businesses can be reached. Also inter-governmental agencies should come together to discuss a unified approach to improving the ease of doing business in Nigeria.

## The Commercial Argument for Buying Companies (BC) or Agents



### Minimum Order Quantity (MOQ) Requirement

Most manufacturing and distribution businesses are unable to meet the UPS MOQ. Hence a Buying Company gathers orders from different businesses, to make up the MOQ and then reach out to the UPS.



### Country Risk

Some UPS may not want to transact directly with Nigerian businesses due to limited knowledge of the market. Thus, foreign Buying Companies purchase these products and resell to the Nigerian businesses.



### Volume Discount Benefit

Due to the large quantity usually ordered, the UPS gives the Buying Company a significant volume discount which is passed to the various businesses that have given their orders to the Buying Company



### Operational Efficiencies

Many Multinational Enterprises (MNEs) have a Buying Company which acts as an intermediary to different entities globally. This reduces cost and waste for the MNEs and increases taxable profits.



### Working Capital Requirement

Buying Companies are able to source for funds at cheaper rates. This is used to settle the UPS which sometimes requests for advance payment or have shorter credit terms than those extended by the Buying Companies to the local businesses.



### Industry Peculiarities

In the case of the Nigerian Oil and Gas Downstream sector, the Trading Companies are effectively the UPS and not the refineries as these local distributors cannot buy directly from the refineries which are the original manufacturers.

We advise customers to speak with their Relationship Managers for clarity on the implications of evolving FX policies on their businesses. Access Bank will continue to work out modalities to ensure minimal disruptions to the business of her customers.

# Important Update on Cheque Books and NEFT Transfers

Please note the following important information regarding your cheque books and NEFT transfers.

## Cheque Books:

- The Central Bank of Nigeria (CBN) in September 2019, introduced a new cheque book design across all banks. To this end, old cheque leaves will be phased out and no longer honoured on presentation, effective December 31, 2020.
- We encourage you to request the new cheque book on or before October 31, 2020 through any of the following channels:



AccessMore app



Your Account Officer



Any Access Bank branch

We would also like to remind you that all cheques with bank code "063" are no longer valid for clearing and will not be honoured on presentation for payment.

## Sort Codes for NEFT Transactions:

When sharing bank details for payments, the 06315000 sort code still applies for NEFT transactions only for former Diamond Bank account.

### More Information:

01-271-2005-7  
contactcenter@accessbankplc.com  
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0700-300-0000  
01-271-2005-7  
accessbankplc.com

