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**Client Update**

# PENCOM's 24-month Forbearance for PFA Investments in PFC Parent Company Securities: Legal and Commercial Implications


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## Introduction

The National Pension Commission's circular of 3rd July 2026 (the "**Circular**") extends regulatory forbearance permitting Pension Fund Administrators ("**PFAs**") to invest in a broader range of securities issued by the parent companies of their respective Pension Fund Custodians ("**PFCs**").

The Circular is significant because it carefully relaxes a sensitive related-party investment constraint while attempting to preserve the central policy objective of Nigeria's pension regime: the protection of contributors' retirement savings. For PFAs, it creates a time-limited opportunity to broaden investment options, but only if supported by robust governance, conflict-management and reporting frameworks.

In this update, Udo Udoma & Belo-Osagie's Compliance, Capital Markets, Private Equity and Venture Capital teams highlight the key changes introduced by the Circular and reviews their practical implications for pension assets and PFAs.

## What the Circular Permits

The forbearance permits PFAs, for a period of twenty-four months, to invest pension fund assets in qualifying equities and financial instruments issued by the parent companies of their PFCs. To qualify, the PFC parent company must be a financial institution licensed by the Central Bank of Nigeria ("**CBN**"), publicly listed on a securities exchange recognised by the Nigerian Securities and Exchange Commission ("**SEC**"), and able to demonstrate financial soundness, including profitability, dividend history, regulatory compliance and the absence of unresolved enforcement actions.

PenCom also imposes exposure limits. For Funds I, II, VI-Active and V-Growth, investment in ordinary shares of a PFC parent company is capped at 3% per issuer, while investment in bonds is capped at 5% per issuer. For Funds III, IV, VI-Retiree and V-Conservative, the corresponding limits are 1% for ordinary shares and 3% for bonds.

Aggregate exposure to equities and bonds issued by a PFC parent company must not exceed 5% of the Retirement Savings Account ("**RSA**") portfolio's consolidated net asset value, while aggregate exposure to all securities of that entity, including money market instruments, must not exceed 10%. Additional limits include that a PFA shall not invest more than 20% in an A-rated or higher corporate bond issued by the parent company of its PFC or 15% in a BBB-rated corporate bond issued by the parent company of its PFC.

## Implications for PFAs

For PFAs, the Circular creates a wider investment menu, but at the cost of heavier governance obligations. Before executing any PFC-parent investment, the proposal must be independently reviewed by the PFA's Investment Committee, Risk Management Unit and Compliance Department. The Board must also establish a policy governing such investments and ensure approvals are granted within a defined framework.

In practice, PFAs should treat these investments as enhanced scrutiny transactions. Investment memoranda should compare the proposed investment with available alternatives, explain why it offers an appropriate risk-adjusted return, document valuation methodology, identify any relationship with the issuer or custodian group, and include stress testing for concentration, correlation and liquidity risk. Where these records are weak, a PFA may face regulatory queries even if the investment performs well.

From an investment perspective, the Circular may help PFAs pursue better risk-adjusted returns, but the prudential caps are designed to prevent excessive concentration. The 10% aggregate exposure cap across all securities of a PFC parent company is especially important because it prevents PFAs from accumulating exposure through multiple instruments and treating them as separate risks.

## Implications for PFC Parent Companies and Issuers

For listed financial institutions that own PFCs, the Circular may improve access to long-term domestic capital. Qualifying issuers may find a deeper pool of institutional demand for ordinary shares, corporate bonds and other permissible instruments. This is commercially important in a market where long-term Naira funding remains valuable and pension assets represent one of the most stable pools of domestic capital.

However, the benefit is conditional. Issuers must maintain strong disclosure standards, regulatory compliance and financial soundness. Any unresolved enforcement issue, deterioration in profitability, dividend suspension or material financial distress may adversely impact eligibility or trigger reporting obligations for investing PFAs. PFC parent companies should therefore expect closer due diligence from PFAs and may need to prepare investor-facing materials that specifically address pension-fund eligibility, credit quality, conflicts and governance.

## Implications for Businesses and Capital Markets

The Circular has broader implications for businesses and the capital market. Firstly, it may increase demand for high-quality listed securities issued by financial institutions where that issuer is a PFC parent company with a strong compliance record. Secondly, it may support corporate bond issuance by eligible financial institutions, provided issuers can meet rating, pricing and governance expectations. Thirdly, by broadening eligible instruments, the Circular may marginally improve portfolio diversification for PFAs operating in a market where investable assets are relatively concentrated.

That said, the Circular does not open the door for all businesses. It is limited to PFC parent companies that are CBN-licensed financial institutions and publicly listed on any SEC-recognised securities exchange. Non-financial corporates and unlisted entities do not benefit directly. The commercial opportunity is therefore concentrated within a narrow segment of the financial services sector, although secondary market effects may include improved liquidity, stronger market signalling and renewed attention to corporate governance among listed financial institutions.

## Conflict Management and Disclosure

The Circular’s conflict-management provisions are among its most important safeguards. PFAs must maintain a PFC-Party Conflict Register documenting each custodian-linked investment, the nature of the relationship, the decision-makers involved, conflict declarations and mitigation measures. Any approving official with overlapping affiliations must disclose the relationship and be excluded entirely from the approval process.

The disclosure obligations are equally significant. PFAs must submit quarterly reports to PenCom showing holdings in PFC parent companies, acquisition dates, valuation basis, percentage exposure to net asset value and period-on-period changes. Audited financial statements of RSA Funds must also disclose exposures in plain language understandable to contributors. Any breaches of exposure

limits or financial distress affecting a PFC parent company must be reported to PenCom within forty-eight hours.

## Practical Steps for PFAs

To operationalise the Circular, PFAs may wish to take the following preparatory steps:

- **Update internal investment policies** to address investments in PFC parent company securities, including approval thresholds, permitted instruments, exposure limits escalation procedures and risk appetite parameters.
- **Adopt enhanced due diligence and investment memorandum templates** covering issuer eligibility, financial soundness, regulatory compliance, credit rating, valuation, liquidity and concentration risk, and requiring any proposed PFC-parent investment to be compared with available alternatives and justified as being in the best interests of RSA holders.
- **Strengthen conflict-management procedures** by maintaining a conflict register for custodian-linked investments and ensuring conflicted directors, officers or committee members are excluded from approval processes.
- **Establish monitoring and reporting processes** to track exposure limits, issuer financial condition, valuation changes and the forty-eight-hour reporting trigger for breaches or financial distress.
- **Build the twenty-four-month forbearance period into investment planning** by diarising the expiry date and considering, at the point of investment, whether an exit or transition strategy would be required if PenCom does not renew or extend the Circular.

## Conclusion

The Circular is a pragmatic improvement on Nigeria's current investable asset environment. It gives PFAs greater flexibility, creates potential capital market opportunities for qualifying financial institution issuers, and may support improved portfolio diversification. However, it also heightens legal and governance risk. Furthermore, the forbearance is temporary, conditional and heavily dependent on fiduciary discipline. PFAs are advised to monitor the twenty-four-month period and prepare an exit or transition plan if the forbearance is not renewed.

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