## Corporate Finance and Capital Markets

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# BONDS VS COMMERCIAL PAPERS: EXAMINING KEY ROLES AND DIFFERENCES IN NIGERIA'S FINANCIAL MARKETS[1]

## 1. Introduction

The Nigerian financial market, which plays a significant role in the economy, mostly depends on debt instruments to support corporate and sovereign goals, manage liquidity, and promote economic growth.[2] Bonds and Commercial Papers (CPs), two different modes of financing with essentially different functions for both issuers and investors, are at the centre of this debt instrument ecosystem. Bonds, which are long-term debt securities, serve as the cornerstone of the capital market, giving businesses and governments a significant and constant source of funds required for capital expenditures, debt restructuring, and multi-year infrastructure projects.[3] On the other hand, Commercial papers, a money market instrument, are usually employed by blue-chip businesses as a short-term promissory note to cover urgent working capital and operational liquidity needs. Whilst both securities reflect a commitment to repay a debt, they are positioned at opposing extremes of the risk-return spectrum due to structural variations that range from maturity periods, collateral requirements, issuance costs, to regulatory scrutiny. Against this backdrop, this article analyses the conceptual framework of these debt instruments, examines the regulatory frameworks that govern

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2 Native Udo, 'Role Of Financial Market In The Economic Development Of Nigeria' (20 April 2023) available at < https://infoguidenigeria.com/role-of-financial-market-in-the-economic-development/ > accessed 16 December 2025.

3 Faster Capital, Debt Securities: Understanding Debt Securities: The Foundation of Capital Markets < https://fastercapital.com/content/Debt-Securities--Understanding-Debt-Securities--The-Foundation-of-Capital-Markets.html > accessed 16 December 2025.

their issuance and highlights their key roles and differences within the context of the Nigerian financial market.

## 2. Overview of Bonds and Commercial Papers

Commercial Paper ("CP") refers to a short term debt instrument typically issued at a discount in the money market in the form of promissory notes by corporate companies or governmental entities to finance operations or short term working requirements like inventories or accounts payable.[4] Commercial paper typically offers relatively low but stable returns due to its short maturity and the high credit quality of its issuers, making it a core instrument of the money market.[5] A distinct feature of commercial paper is that its maturity date ranges from 1 to 270 days unlike bonds which usually have a maturity date that range from 1 to 30 years.[6] Key examples of commercial paper includes Apple Inc Commercial Paper Program, where the company issued unsecured short term promissory notes utilizing the net proceeds for dividend and share repurchases. In 2016, the company had a $10,500,000,000.00 (ten billion, five hundred million United States Dollars) and a $8,500,000,000.00 (eight billion, five hundred million United States Dollars) commercial paper outstanding.[7] While, in Nigeria, companies like Nigerian Breweries Plc., launched a ₦100,000,000,000.00 (hundred billion Naira) commercial paper issuance programme in early 2023, a rise from their previous ₦67,000,000,000.000 (six-seven billion Naira) commercial paper quoted on Financial Markets Dealers Quotations (FMDQ) group.[8]

Bonds, on the other hand, are capital market instruments where individuals or investors lend money to the government or to companies at a specified interest rate for an established period of time.[9] According to Nigeria's Securities and Exchange Commission, Bonds are tradable securities issued by a borrower (i.e., bond issuer) representing formal agreement to repay the lender (i.e., the bond holder) the full amount plus interest over the lifetime of the bond.[10] What this means is that in return

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4 FMDQ, 'What Are Commercial Papers? – FMDQ Group' (*Fmdqgroup.com*2025) available at <https://fmdqgroup.com/faqs/what-are-commercial-papers/> accessed 7 November 2025.

5 *Ibid.*

6 *Ibid.*

7 SEC, 'Apple Inc Statement of Operations' (*Sec.gov*2016) available at <https://www.sec.gov/Archives/edgar/data/320193/000162828017000717/a10-qq1201712312016.htm> accessed 8 November 2025.

8 Nigerian Breweries, 'NB Plc Establishes 100 Billion Commercial Paper Programme - Nigerian Breweries PLC.' (Nigerian Breweries PLC.29 September 2015) <https://www.nbplc.com/nb-plc-establishes-100-billion-commercial-paper-programme/> accessed 11 November 2025.

9 Jason Fernando, 'Bonds: How They Work and How to Invest' (*Investopedia*3 May 2024) <https://www.investopedia.com/terms/b/bond.asp> accessed 8 November 2025.

10 Securities and Exchange Commission, Frequently Asked Questions for Bonds (Sec.gov.ng) https://home.sec.gov.ng/about/resources/frequently-asked-questions/faqs-for-bonds/ > accessed 19 December 2025.

for the money extended by the bondholders to the companies or governments (whether local or federal government), the bondholders get interest payments and the principal amounts at maturity date.

There are various parties involved in a bond transaction. The party (a government or a corporation) seeking to raise money through the debt instrument is referred to as the issuer, while the persons or entities who invest in the debt instrument are referred to as the bondholders.[11] A prominent example of a bond offering occurred in 2013 when Apple Inc. sold $17,000,000,000.00 (seventeen billion United States Dollars) in corporate bonds, the largest bond offering in history at that time, surpassing Roche Holdings' $16,500,000,000.00 (sixteen billion, five hundred million United States Dollars) offering in 2009.[12] In Nigeria, the Federal Government of Nigeria recently issued a ₦50,000,000,000.00 (fifty billion Naira) green bond with a duration of 5 years due in 2030 to fund climate-friendly projects and reinforce the nation's commitment to the Paris agreement.[13]

## 3. The Roles of Bonds and Commercial Papers in Nigeria's Financial Market

Bonds play a major role in financing a wide range of sectors including healthcare, power, transportation, and education by providing the long-term stable capital needed to build and maintain essential infrastructure. The on-grid connected hybrid solar PV mini grid power project in Torankawa, Sokoto state, completed in 2019 and the power house solar PV projects are just a few of the projects that proceed on the strength of the Federal Government's green bond. Restructuring debt is another essential role that bonds play.[14] In order to refinance maturing short-term liabilities, especially treasury bills, the governments or companies periodically issue bonds that have reasonable repayment schedules. This liability management lessens the danger of rollover, facilitates debt service payments, and may even cut the total cost of borrowing.

Bonds are also a crucial substitute for bank loans for Nigerian businesses looking to finance growth, acquisitions, and operational scaling. The most frequent issuers of

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11 *Ibid.*

12 Nasdaq, 'Apple Sells $17 Billion in Bonds in Largest Corporate Bond Offering Ever' (*Nasdaq.com*2013)<https://www.nasdaq.com/articles/apple-sells-17-billion-bonds-largest-corporate-bond-offering-ever-2013-05-01> accessed 8 November 2025.

13 African Climate Wire, 'Nigeria Issues N50bn Green Bond to boost climate finance' <https://africanclimatewire.org/update/nigeria-issues-n50bn-green-bond-to-boost-climate-finance/> accessed 21 November 2025.

14 Carol Kopp, 'Debt Restructuring: Realigning Debt to Make It More Manageable' (Investopedia2019) <https://www.investopedia.com/terms/d/debtrestructuring.asp> accessed 19 November 2025.

corporate bonds are banks and financial institutions, which use the revenues to increase capital adequacy and provide longer-term loans to individuals and businesses. In a similar vein, bonds direct domestic savings from individuals, institutional investors, pension funds, and insurance companies towards profitable ventures. For instance, Federal Government of Nigeria's bonds absorb large pension allocations and convert retirement savings into capital for national growth due to the sovereign credit quality and predictable yields that they provide. By allocating funds, that could otherwise stay in low-yielding deposits, to infrastructure and business expansion that spurs employment and growth, this financial intermediation is crucial to rapid economic growth.

Conversely, CP enhances the financial flexibility of businesses by expanding available sources of funding for operational needs beyond reliance on traditional bank loans.[15] Businesses that rely too much on bank credit to finance operational expenditure run the danger of possible operations disruptions if the banking sector's liquidity tightens. CP provides financial agility and ready liquidity for operational needs. A company can quickly respond to financial demands or take advantage of favourable market conditions by issuing individual tranches within days of establishing a registered program with investor documentation and regulatory approval. Also, the depth and sophistication of Nigeria's money market are greatly enhanced by the ongoing issue and trading of CP. This vibrant money market in turn provides an opportunity for individuals or businesses seeking to invest short-term funds and adjust portfolios. CPs produce a range of short-term interest rate instruments with different maturities, credit quality, and issuer types for these individuals or businesses.[16]

## 4. Differences between Commercial Papers and Bonds

The notable differences between Commercial Paper and Bonds in the context of the Nigerian Financial Market are:

a. **Duration**: Commercial papers usually have a maturity term of 15 to 270 days, making them short-term debt instruments. On the other hand, Bonds are usually long term, and may even accord the bondholders indefinite ownership.[17] This suffices to say that CPs are relevant for obtaining short term

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15 Mark P Cussen, 'An Introduction to Commercial Paper' (Investopedia 7 December 2020) <https://www.investopedia.com/articles/investing/070313/introduction-commercial-paper.asp > accessed 19 November 2025.

16 *Ibid.*

17 Kehinde Adegoke and Deborah Marshall, 'Basics of Issuing Commercial Papers in Nigeria | ALP | a Leading Corporate Commercial Law Firm in Lagos Nigeria' (Alp.company2023).

liquidity and immediate financing while bonds are utilized for capital intensive projects like construction of roads and funding of power infrastructures.

b. **Interest rate**: Due to CPs short-term nature, it yields lower returns compared to bonds, which yield higher investment returns. A notable example of CP having low yields is exemplified in the MTN's commercial paper issuance of 2020 with a yield of 4.8 to 5 percent, while the FGN Series 3 Green bonds had an 18.95% fixed interest rate.

c. **Repayments**: In most cases, the profit of the investors in commercial papers is the difference between its face value and the actual amount invested. While for Bonds, interests are usually paid to the bondholders according to the terms of the bonds issue.

d. **Issuers**: Another significant difference between CPs and Bonds is the issuer. A Commercial Paper is limited to companies with high credit worthiness such as large corporations and financial institutions. Bonds, on the other hand, can be issued by either governments or corporations. When they are issued by companies, they are described as corporate bonds while when issued by governments, they are known as government bonds.

e. **Market**: CPs and Bonds are usually traded in different markets. CPs are traded in the money market, differing from bonds which are traded in the capital market. Money market refers to the forum where short term funds can be accessed, while the capital market refers to the financial market for buying and selling of securities.

f. **Regulators:** While the Securities and Exchange Commission (SEC) and the Financial Markets Dealers Quotations (FMDQ) regulate both bonds and commercial paper issuances, commercial paper issuances are also regulated by the Central Bank of Nigeria.

g. **Convertibility:** Bonds may be convertible or not, depending on the terms of the bonds issue. This means that such bonds may be converted to equity in the issuer, in accordance with the terms of the bond's issue. On the other hand, commercial papers are rarely convertible**.**

<https://www.alp.company/resources/banking-financial-market/basics-issuing-commercial-papers-nigeria> accessed 11 November 2025.

## 5. Regulations Governing Commercial Papers and Bonds

It can never be over emphasized how regulation is paramount to the effectiveness and enforcement of debt market instruments in Nigeria. The regulations governing Commercial Papers and Bonds in Nigeria are examined below.

a. Regulatory Framework Governing Commercial Papers in Nigeria

Commercial papers have been given recognition in both the Financial Markets Dealers Quotations (FMDQ) Rules and Central Bank of Nigeria (CBN) Guidelines on the Issuance and Treatment of Bankers Acceptances and Commercial Papers. Under the FMDQ rules, Commercial papers are given a duration of 3 years upon registration of such CP.[18] It also provides that the tenor which a commercial paper has is between 15 - 270 days. Similarly, the CBN guidelines provide that CPs shall be issued for maturities of between 15 days and 270 days, including rollover, from the date of issue.[19] On the other hand, when a commercial paper is issued by a bank, the established tenor is 30 - 270 days.[20] In relation to the issuance of commercial paper, the CBN guidelines prescribes that a CP shall be issued primarily for a minimum value of 100 million and subsequently in multiples of 50 million.[21] The CBN guidelines further elaborates that before a company can issue a CP, it has to submit a proposal to the Issuing and Paying Agent coupled with its rating report given by a credit rating agency.[22] In return, the IPA must ensure that the company meets the minimum credit rating requirements as established by Central Bank of Nigeria and confirm all documents tendered by the company with the intention to issue a CP.[23] Notably, the CBN guidelines mandates that all CP should be registered with a licensed securities depository.[24]

b. Regulatory Framework Governing Bonds in Nigeria

The legal framework governing bonds is set out in the Securities and Exchange Commission's (SEC) New Rules on the Issuance and Allotment of Private Companies' Securities 2025 and the *Investments and Securities Act* (ISA) 2025.[25] The SEC Rules provide that any public companies and supranatural

[18] Paragraph 3.2 of the FMDQ Rules.
[19] Paragraph 6.2 of the CBN Guidelines.
[20] *Ibid*.
[21] Paragraph 7.2 of the CBN Guidelines.
[22] Paragraph 14.2.1 of the CBN Guidelines.
[23] Paragraph 15.2 (i) and (ii) of the CBN Guidelines.
[24] *Ibid*, paragraph 16.0.
[25] See, *Investments and Securities Act*, 2025 (No. 2, 2025).

bodies shall be eligible to issue corporate bonds[26] and all issues of corporate bonds must be rated by a rating agency.[27] In events where such bonds are issued through public offering, the credit rating shall not be below the investment grade.[28] Furthermore, the rules provide that bonds can be issued either through an offer of subscription, private placement or rights issue.[29] The rules also address issuers already in default, stipulating that any issuer in default on interest and principal repayment for more than six months is restricted from issuing new bonds. Additionally, the *Investment and Securities Act* 2025 provides that every bond must be signed by the issuer and when executed binds the issuer to pay the principal sum and interest at the rate specified in the trust deed.[30] It also states that bonds may be issued in such denominations determined by the issuer. Similarly, it provides for the appointment of custodians which may be in the form of financial institutions for the purpose of holding the proceeds of bond issuances.[31] The ISA also provides for the appointment of trustees to act on behalf of bond holders.[32] Finally, it establishes that the SEC is the regulatory body which may issue public debt securities like bonds.[33]

## 6 Conclusion

In conclusion, Debt securities like bonds and commercial papers remain vital sources of financing in the Nigerian Financial Market. While they offer investors diverse opportunities for income through interest and coupon returns, they simultaneously provide governments and corporate entities with immediate access to funds needed to support operations, projects, and infrastructure. Hence, the continued development and regulation of these instruments will foster long-term growth in the financial market and create a financial environment that offers stability for day-to-day operations and the expansion of the national economy.

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26 568 (a) (i) SEC Rules.
27 568 (a) (iii).
28 *Ibid*, Rule 568 (a) (iv).
29 *Ibid*, Rule 568 (b).
30 See, *Investment and Securities Act* 2025; section 281(1).
31 *Ibid*, section 270.
32 *Ibid*, section 283.
33 *Ibid*, section 269.

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