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Banking Regulation Newsletter

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Introduction

The Central Bank of Nigeria (“CBN” or “the Bank”) issued some circulars and framework documents between November 2020 and January 2021, thus further demonstrating the banking regulator’s policy direction.

The Bank issued five circulars on diaspora remittances within the short period of 3 months, obviously showing concerted effort to address the unstable foreign exchange market and a need to maximize available foreign exchange liquidity sources. The Bank’s other focus areas include Nigerian payment systems, non-interest asset-backed securities, CBN special bill, and the Nigerian cheque standards.

Diaspora Remittances

The CBN seeks to liberalize, simplify and improve the receipt and administration of diaspora remittances in Nigeria. According to the CBN, the new policy is to ensure transparency, grow diaspora remittances, and significantly improve foreign exchange inflows into Nigeria. This measure will stabilise the exchange rate of Dollar to Naira as there would invariably be an increase in the supply of dollars within the country.

Also, Beneficiaries of Diaspora Remittances through International Money Transfer Operators (IMTOs) shall henceforth receive such inflows in foreign currency (US Dollars) through the designated bank of their choice. Such beneficiaries may have the option of receiving these funds in foreign currency cash (US Dollars) or in their domiciliary account.

The Nigerian Inter-Bank Settlement System (NIBSS) shall manage Diaspora remittances through a central reporting portal. This way, the CBN intends to block all unofficial channels through which such remittances were hitherto made, which facilitated the diversion of remittance flows meant for Nigeria.

The Circular Number TED/FEM/FPC/GEN/01/ prescribed that:

- i. Beneficiaries of diaspora remittances through International Money Transfer Operators (“IMTOs”) shall receive such inflows in foreign currency (US Dollars) through designated banks of their choice.
- ii. The beneficiaries/recipients will have the option of receiving the funds in foreign currency cash (US Dollars) or by direct transfer/credit in their ordinary domiciliary accounts.
- iii. The beneficiaries will also have unfettered access and utilisation to such foreign currency proceeds, either in cash and/or in their domiciliary account.

The Second Circular Number TED/FEM/FPC/GEN/01/012 clarifies the CBN’s position in the First Circular, stating that:

- i. IMTOs must ensure that all funds in favour of beneficiaries /recipients are deposited into the Agent Banks’ correspondent account. Agents Banks are Deposit Money Banks (“DMBs”).
- ii. The DMBs in Nigeria will be responsible for the final payment to beneficiaries/recipients either in US Dollar cash or into the beneficiary’s domiciliary account in Nigeria.
- iii. The mode of payment, either in cash or transfer, is at the sole discretion of the beneficiaries.





While there was substantial compliance with the new procedure for diaspora remittances, the CBN noted that a few operators continued to pay in local currency, contrary to its earlier directive. Consequently, the CBN issued the Third Circular Number PSM/DIR/CON/CWO/16/119, providing for the following additional operational guidelines:

- i. Switches and processors should immediately cease local currency transfers in respect of foreign remittances through IMTOs.
- ii. All Mobile Money Operators (MMOs) are required to disable wallets from receipt of funds from IMTOs immediately.
- iii. Payment service Providers are directed to cease integrating their systems with IMTOs and must prevent comingling of remittances with other transactions.
- iv. All IMTOs are to notify beneficiaries that they (the beneficiaries) can exercise the discretion to receive their transfer in foreign cash or directly in their domiciliary accounts.
- v. A central reporting portal for all foreign remittances to be managed by the Nigerian Inter-Bank Settlement System (NIBSS) is currently under development to improve the visibility of foreign remittance flows.

Contravention of the provision of these circulars attracts sanctions, which may include revocation of licence. Further to the above, the Fourth Circular Number PSM/DIR/CON/CWO/16/126 was issued. It directs that:

- i. all DMBs should close all Naira accounts for IMTOs. This is to ensure that all diaspora remittances are received by beneficiaries in foreign currency only.
- ii. DMBs are allowed to open new Opex accounts for the purposes of the IMTO operations, such as salary payments and other operating expenses excluding diaspora remittance receipts.
- iii. DMBs are to ensure that proper audit of IMTO accounts is done to forestall further use of Naira accounts for diaspora remittance purposes.

However, the CBN noted that some IMTOs and some unlicensed companies continue to facilitate diaspora remittances into Nigeria in Naira in contravention of the earlier CBN directives. Thus, the Fifth Circular Number TED/FEM/FPC/PUB/001/001 was meant to address this issue. The Circular directs that:

- i. Only licensed IMTOs are authorised to carry on the business of facilitating diaspora remittances into Nigeria;
- ii. All diaspora remittances are to be received by beneficiaries in foreign currency only; and
- iii. IMTOs are not permitted to disburse diaspora remittances in Naira, be it through Naira settlement accounts (which had been directed to be closed in the Fourth Circular), third party, or via any other platforms within the Nigerian financial system.

Any unlicensed company carrying on the business of diaspora remittance may have their bank accounts closed in Nigerian banks and may be barred from accessing banking services in Nigeria.

New License Categorisations for the Nigerian Payment System

The CBN has approved a “New License Categorisations for the Nigerian Payment System” (“NPS Circular”) to provide clarity on the framework and licensing regime for payment systems in Nigeria.

A payment system is any mechanism used to settle financial transactions through the transfer of monetary value. Payment systems are used in place of tendering cash in domestic and international transactions.

Payment Systems may be physical or electronic. Physical or traditional payment systems include negotiable instruments such as cheques and documentary credits. Electronic Payment Systems include debit cards, credit cards, electronic funds transfers, internet banking, and e-commerce payment systems, among others.



The NPS Circular focuses on the electronic payment systems.

Highlights of the NPS Circular

The NPS Circular streamlines payment system licensing into four broad categories, as follows:

- a) Switching and Processing
- b) Mobile Money Operations (MMOs)
- c) Payment Solution Services (PSSs)
- d) Regulatory Sandbox

A. Switching and Processing

Payment/Transaction switch routes transaction data to financial institutions or hosts and merchants for processing and approving electronic transactions upon receiving transaction requests from more than one interface like the ATM, POS, etc). For a switching company to operate in Nigeria, it must obtain a Switching license from the CBN.

The NPS Circular prescribes a minimum share capital requirement of Two Billion Naira (N2,000,000,000) for switching and processing Companies.

Permissible Operations for switching and processing license include switching, card processing, transaction clearing, settlement agent services, and non-bank acquiring services. Switching and Processing companies are also permitted to perform the activities covered under the Super-Agent, Payment Terminal Service Provider (PTSP), and Payment Solutions Service Provider (PSSP) licences.

B. Mobile Money Operators (MMOs)

Mobile money is an electronic wallet service. MMOs allow customers to receive, store and expend money using a mobile phone. The NPS Circular prescribes a minimum share capital requirement of Two Billion Naira (N2,000,000,000) for MMOs.

MMOs are permitted to engage in e-money issuing, wallet creation, and management, pool account management, as well as activities permitted for super-agents.

C. Payment Solution Services (PSSs)

The minimum share capital for PSSs is Two Hundred and Fifty Million Naira (N250,000,000). A holder of the PSS licence can combine the permissible activities of super-agent, payment terminal service provider, and payment solutions service provider.

D. Regulatory Sandbox

The CBN released the Draft Framework for Regulatory Sandbox Operations on June 23, 2020 to guide how new fintech products/services are launched in Nigeria. The purpose of the framework is to allow FinTech start-ups and innovators to conduct live experiments in a controlled environment under the CBN's supervision.



The license for the regulatory sandbox is expected to stimulate innovation and financial inclusion. Applicants who wish to operate under this category may be licensed institutions, fintech companies, innovators, and researchers. CBN will review their products during implementation. Although this licence class has no specified minimum capital requirement, an applicant will still need a no-objection letter from the Payment System Management Department of CBN.

Other Licensing Categories

- a) **Super-Agent:** The minimum share capital for a Super Agent's licence is Fifty Million Naira (N50,000,000). The permissible activities for super-agents are agent recruitment, management, and other activities set out in the Regulatory Framework for Licensing Super Agents in Nigeria.
- b) **Payment Terminal Service Provider (PTSP):** The minimum share capital for this licence category is One Hundred Million Naira (N100,000,000). The permissible activities for a PTSP licensee are POS terminal deployment and services, POS terminal ownership, Payment Terminal Application Developer (PTAD), merchant/agent training, and support.
- c) **Payment Solution Service Provider (PSSPs):** The minimum share capital for PSSPs is One Hundred Million Naira (N100,000,000). PSSPs can engage in payment processing gateway and portals, development of payment solution/application, and merchant service aggregation and collections.

Other Notable Highlights

- i. Applicants who intend to conduct dual licence activities of MMOs and Switch Companies can do so only under a holding company structure, such that the activities of the subsidiaries are clearly delineated to avoid commingling.
- ii. Only MMOs are permitted to hold customer funds. Other licensees in any of the different categories are not permitted to hold funds.
- iii. Payment system companies in the PSS category may hold any of the PSSP, PTSP, and super-agents' licences or a combination of any of them.
- iv. All licensed service providers holding or seeking any other CBN-issued licenses are required to obtain a letter of no-objection from the Payment Systems Management Department of the CBN.



- v. The object clause of the memorandum of association of payment service providers shall be limited to the permissible activities under their licensing authorisations.
- vi. Collaborations between licensed payment companies, banks, and other financial institutions regarding products and services are subject to the prior approval of the CBN.
- vii. All new licensing applications, including applications with approval-in-principle, are required to comply with the new requirements immediately. Existing licensed payment companies are required to comply with the requirements not later than the end of June 2021.

Non-Interest Asset-Backed Securities

The CBN issued a Draft Framework for the Operationalisation of Non-Interest Asset-Backed Securities in December 2020. This was done in response to the increased investment in Sukuk issued by multilateral organisations and the rising participation of non-interest financial institutions at the CBN windows.

The CBN explained that the development of the CBN Non-Interest Asset Backed Securities ("CNI-ABS") would deepen the Nigerian Financial Markets and increase financial inclusion and provide a liquidity management instrument compliant with the principles of non-interest finance in Nigeria.

The framework will ensure full or partial conversion (into local currency) of the value of CBN investments in Islamic Development Bank and/or International Islamic Liquidity Management Corporation Sukuk or other Sukuk to which Nigeria is a member. It will also ensure the securitization of the non-interest assets based on the maturity profile, which shall serve as the issue account for auction purposes, and the assets can be auctioned to eligible institutions. The transfer or allotment of the auction amount to eligible institutions will be based on subscriptions.

The assets shall meet the condition of tradability in Shariah. The eligible institutions are interested Non-Interest Financial Institutions and other institutions as the CBN may approve from time to time.

The investor shall enter into a unilateral binding undertaking to sell the nominal to the CBN at maturity, which will make the asset become a CBN's asset exclusively and the CBN, in turn, reserves the right to hold or reissue it to the market.

The CBN shall also issue notices as it may determine from time to time for such auctions, calling on interested and eligible institutions to bid in auctions.

The auction amount shall be predetermined by the securitized amounts outstanding in the issue account; while bidders shall not be allowed to submit multiple bids as no institution with its affiliated entities as a group may be allotted more than 25% of the auction amount in line with ensuring that all institutions are presented with a fair opportunity.

The minimum bid amount shall be N1,000,000 and integral multiples of N1,000 in excess subject to the CBN's periodic review. The bid shall be sent in the bidder's name via the appropriate media specified in the auction notice. A single exchange rate applies for issuing, maturity, and return of each issue relative to the underlying asset based on Wa'd and shall be determined at the beginning of each auction.

Bids shall be sorted in ascending order. In the event of an undersubscription, the total subscription shall be allotted as the total auction amount. The CBN may reject defective bids.

The result of the auction shall be announced to all participants through electronic media at the same time. Settlement shall be on a T+0 basis. The auction shall take place on any business day, while settlement shall take place on the next business day.

Finally, where an issue matures before receipt of the coupon by the CBN, the bank shall pay the accrued return as advance or a loan at zero interest rate in anticipation of the expected return. However, the CBN shall charge an applicable Wakalah fee. Wakalah is a term in Islamic finance that denotes an agency contract. One party appoints another to conduct a defined legal action on his behalf for a specified fee or commission.



Introduction of Central Bank of Nigeria Special Bills

On the 1st December 2020, the CBN introduced its "CBN Special Bills" to the financial system. The policy is geared towards deepening the financial markets while availing the monetary authority with an additional liquidity management tool. With this new Bill, the CBN will monitor the excess Cash Reserve Requirement balances of local banks by offering them short-dated zero-coupon (or zero-interest) special bills.

The features of the CBN Special Bills are as follows:

- a) Tenor of 90 days;
- b) Zero coupon, applicable yield at issuance will be determined by the CBN;
- c) The instrument will be tradable amongst banks, retail and institutional investors;
- d) The instrument shall not be accepted for repurchase agreement transactions with the CBN and shall not be discountable at the CBN window; and
- e) The instrument will qualify as liquid assets in the computation of liquidity ratio for deposit money banks.

Revised Nigeria Cheque Standard ("NCS") and Nigerian Cheque Printers Accreditation Scheme ("NICPAS")

On December 9, the CBN issued the Circular on Nigeria Revised Cheque Standard and Nigerian Cheque Printers Accreditation Scheme. According to the CBN, the changes to the timelines introduced by the Circular was necessitated and geared towards ensuring a smooth migration to the revised NCS and NICPAS Version 2.0. The CBN had approved a cheque standard plan that includes new digit on the magnetic ink character recognition code line and expiry dates for cheque books. In its Monetary, Credit, Foreign and Exchange Policy Guidelines for Fiscal Years 2020/2021, the CBN noted that it approved the revised NCS and NICPAS to improve the clearing system's safety and efficiency. Notable changes in the revised Standards include the introduction of Quick Response (QR) Code for faster verification of cheque details, the expiry date of the printed cheque booklet, and a clear zone at the back of the cheque. The CBN also noted that it shall continue to conduct annual accreditation of the Nigeria cheque printers and cheque personalizers, in line with the provisions of the revised NICPAS.

The Circular directs that:

- 1) The cut-off date for the parallel run, in which old and new checks were allowed to coexist, was extended from 31st August 2020 to 31st December 2020. Hence, only new cheques are allowed in the clearing system from 1st January 2021.
- 2) Banks who are unable to migrate to the new standard fully are required to write to the Director, Banking Services Department, to obtain a waiver for a maximum period of three (3) months, ending 31 March 2021. Waivers will only be granted if reasons for the inability to migrate are satisfactory after management consideration.
- 3) Full enforcement of the second edition of the NCS and the NICPAS version 2.0 will commence on 1 April 2021, and the NCS/NICPAS 2.0 Sanction grid will be fully operational on 1 April 2021. All Deposit Money Banks are directed to actively enlighten their customers and ensure necessary provisions are put in place for a smooth migration to the new standard.



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